ECHO BAY

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1997 ANNUAL REPORT

On the cover:
Underground gold miners Ned Legge (standing) and John Council

The Year in Review

Echo Bay took a number of steps to combat 18-year lows in gold prices:

- **New mining plan at Round Mountain improves cash flow and profitability** *page 4*
- **Temporary suspension of operations at Lupin preserves the gold in the ground until prices improve** *page 10*
- **Deferral of two new gold mines ties construction to gold price increases** *page 12*
- **Special one-time charges recognize the realities of market conditions** *page 17*

	1997	1996
Financial Results (U.S. dollars)		
Revenue (millions)	**$ 305.4**	$ 337.3
Net loss (millions):		
Before special provisions[1]	**$ (57.8)**	$ (69.6)
After special provisions[1]	**$(420.5)**	$(176.7)
Net loss per share:		
Before special provisions[1]	**$ (0.46)**	$ (0.52)
After special provisions[1]	**$ (3.06)**	$ (1.31)
Production (ounces)		
Gold	**721,075**	768,919
Silver	**11,021,708**	7,102,348
Ore Reserves (ounces)		
Gold	**7,479,000**	8,573,000
Silver	**46,525,000**	53,858,000
Other		
Shares outstanding (millions):		
Weighted average	**139.4**	134.4
Year-end	**139.4**	139.4
Number of shareholders	**65,000**	65,000

[1]In 1997, provisions totaled $362.7 million for impaired assets and severance costs. In 1996, provisions totaled $107.1 million for write-off of the Alaska-Juneau development project and pit wall stabilization at the McCoy/Cove mine.

We make projections of various kinds throughout this annual report. For a discussion of forward-looking statements and related risk factors, please see page 43.

Contents

Fellow Shareholder:

1997 was a terrible year for our company and for most people in the gold industry. The gold price fell as low as $281 per ounce, a level we hadn't seen in 18 years. That was bad enough on the face of it, but if you stop a moment and adjust $281 for 18 years of inflation, you find that just to stay even with 18 years ago, the gold price today would have to be $656. Matters are that much worse than they were 18 years ago.

Once-profitable mines are unprofitable at today's gold price. Some are being shut down. New mines are not being built; they cannot attract financing. The gold industry is out of favor with investors. Gold producers cannot raise capital at reasonable rates (or sometimes even at unreasonable rates). Project opportunities are being lost. Expenses are being cut to the bone. Carrying values of assets have to be reduced.

Tough Times, Tough Decisions

Tough times call for tough decisions. We made and implemented several decisions in response to market conditions.

We temporarily suspended operations at the Lupin mine in Canada and scaled back operations at McCoy/Cove in the United States, our two highest-cost mines, until the gold price improves.

We deferred construction of two new mines, Aquarius in Canada and Paredones Amarillos in Mexico. We also deferred further development of Ulu, a satellite deposit to the Lupin mine.

We wrote off our investment in the Kingking copper-gold development project in the Philippines. Kingking might have been tempting to develop if gold had been selling for $400 per ounce. Capital requirements were estimated to be more than $400 million — if capital had been available, which it was not. Reality was stark and compelling.

We wrote off our investment in Santa Elina Mines Corporation after an unsuccessful attempt to sell part or all of our non-strategic 58% interest in this Brazilian-based gold exploration and development company. The marketability of Santa Elina's assets had plunged in the wake of the decline in value of many junior exploration companies, along with the decline in world gold prices.

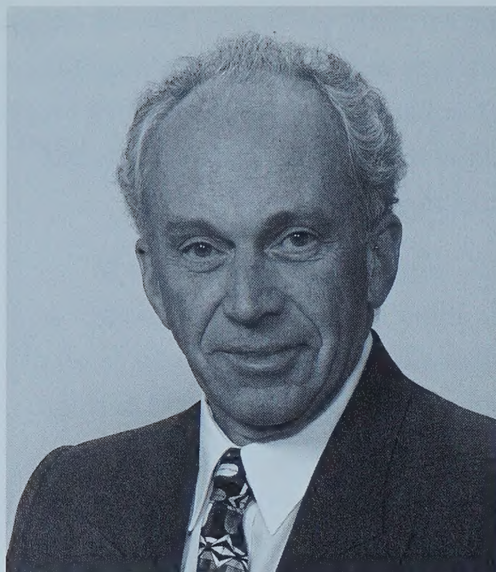
Sharply Reduced Spending

These unattractive but necessary decisions reduced our 1997 capital expenditure needs by $85 million, from $189 million to $104 million. We have further slashed our 1998 capital expenditure budget to $13 million.

We cut exploration spending from $64 million in 1996 to $35 million in 1997. Our budget for 1998 is $7 million. The budget will be reviewed if gold prices improve. We have refocused our exploration effort, narrowing it to those projects we believe have the most promising near-term prospects, principally those located in North America where we already have extensive gold mining infrastructure.

We reduced general and administrative expenses from $14 million in 1996 to $11 million in 1997. Our target for 1998 is $9-10 million.

We reduced by $5 million in 1997 the cost of technical, computer system and other support services provided and charged by our corporate office to the mines, development



Robert L. Leclerc

projects and exploration properties. In 1998, additional cost reductions are expected to total about $6 million.

We implemented a series of cutbacks that reduced our workforce from about 2,300 people at the beginning of 1997 to 1,300 today. We established provisions totaling $17 million for severance costs.

We reviewed the carrying values for all of our assets in light of market conditions and wrote down the carrying values by $346 million.

The financial results of these actions are set forth for your review on pages 17-19. The presentation on those pages, "Management's Discussion and Analysis," will give you a detailed explanation of the year's results when compared with the prior year.

Good With the Bad

There was good with the bad. Round Mountain adopted a new mining plan that significantly increases the cash flow, profitability and net present value of the project. In 1997, production increased by 16% and cash operating costs were reduced to $207 from $221 per ounce at our largest and lowest-cost mine. On pages 4 and 5, you will find a discussion of the improvements.

The carrying value write-down, a non-cash charge, reduced the cost basis of the assets on our balance sheet. It also reduced our future gold production costs, since it reduced deferred mining costs and future depreciation and amortization amounts.

We expect 1998 cash operating costs to be in the range of $245-255 per ounce of gold produced, despite lower production levels. With the temporary suspension of operations at Lupin and scaled-back operations at McCoy/Cove, our 1998 company-wide production targets are 500-520,000 ounces of gold and 7-8 million ounces of silver.

By temporarily suspending operations at Lupin, we preserve the gold in the ground so it can be mined profitably when gold prices improve. This gives us time to examine opportunities for reducing costs by optimizing Lupin's mining methods and operating procedures. Lupin is a valuable resource, too valuable to be squandered at these gold prices.

With gold prices hitting 18-year lows, we have focused this company on what's truly important.

Protection Against Price Declines

We have protected ourselves against further gold price declines by hedging our entire planned 1998 gold production at a minimum average price of $340 per ounce. This means we will receive $340 per ounce no matter how low the gold price might fall on world markets.

Moreover, our cash flow improves if the gold price rises above $310 per ounce, because our 1998 hedge position includes 300,000 ounces of put options at $310 per ounce (75,000 ounces per quarter). We would simply sell at the higher spot prices instead of exercising the put options.

For 1999, we have hedged approximately 330,000 ounces of gold at a minimum average price of $365 per ounce. Depending on the gold price in months to come, we may do more.

Cash and Debt

The price of gold was $289 per ounce on December 31, 1997. At that price, the cash value of our gold and silver hedge position was approximately $40 million. The lower the gold price, the more our hedges are worth. In January 1998, we harvested $9 million in cash from our hedge position by repurchasing 250,000 ounces of gold forward sales and eliminating 225,000 ounces of contingent gold forwards. We have no current plans to cash in any more.

During 1997, we reduced our total debt to $67 million, down from $183 million a year earlier. At December 31, 1997, our current debt was $15 million and our long-term debt was $52 million. Long-term debt includes the present value, $4 million, of our capital securities principal amount, in accordance with Canadian generally accepted accounting principles. The present value of our future interest payments, $96 million, is a separate component of shareholders' equity. The $100 million capital securities were issued in March 1997.

Looking Ahead

When the gold price improves, we plan to reopen Lupin and complete construction at Aquarius and Paredones Amarillos. These three mines will nearly double our production. It only makes sense to wait until this production can be profitable instead of unprofitable.

In the meantime, we can afford to wait. We are going to live within our means. We have taken the actions required to accomplish that. Because of our hedge position, we expect to be cash flow neutral in 1998 no matter how low the gold price might fall on world markets — and cash flow starts rising at $310 per ounce, again because of our hedge position.

We have focused this company on what's truly important. We have taken the steps we believe to be necessary not only to survive an extended period of depressed gold prices, but also to thrive when gold prices improve.

Robert L. Leclerc, Q.C.
Chairman and Chief Executive Officer

March 17, 1998

Round Mountain

Location: Nevada, United States

Mine type: Open pit; heap leach and mill

Ownership: 50%

1997 total production: 477,680 ounces of gold (Echo Bay's 50% share, 238,840 ounces)

1997 cash operating costs: $207 per ounce

1997 total ore reserves: 7,037,000 ounces of gold (Echo Bay's 50% share, 3,519,000 ounces)

Year acquired: 1985

Total production since acquisition:
4,273,394 ounces of gold
(Echo Bay's 50% share, 2,136,697 ounces)

Some good things just keep getting better. That is certainly the case with Round Mountain, Echo Bay's largest and lowest-cost gold producer, located 60 miles north of Tonopah, Nevada.

In 1997, Round Mountain introduced a new mining plan that improves cash flow and profitability, significantly increasing the net present value of the project.

Round Mountain also completed construction of a new mill and celebrated a milestone when it produced the four millionth ounce of gold since Echo Bay acquired a 50% interest and became the operator in 1985.

Our partners are Homestake Mining Company and Case, Pomeroy & Company, Inc. Each owns 25%.

Operations

Round Mountain is one of the largest open pit heap leach gold mines in the world. The sheer volume of material moved per day, nearly 280,000 tons of rock with some 140,000 tons containing recoverable gold, provides the economies of scale that keep unit costs low.

The gold ore mined is taken to one of three locations on the property: a reusable heap leach pad, dedicated (permanent) heap leach pad, or newly constructed mill.

Ore taken to the reusable pad is crushed before being placed under leaching solution. Within 100 days, a majority of the gold is recovered. The leached ore is then moved to the dedicated pad, and fresh ore is added to the reusable pad.

The reusable pad off-loads are placed on the dedicated pad so further processing can squeeze out more of the remaining gold over a period of years. "Run of mine" (uncrushed) low-grade ores are also treated here, made economical because crushing costs are eliminated.

Heap leaching is a low-cost recovery method, ideal for most but not all of the ore types found at Round Mountain.

New Mill Completed

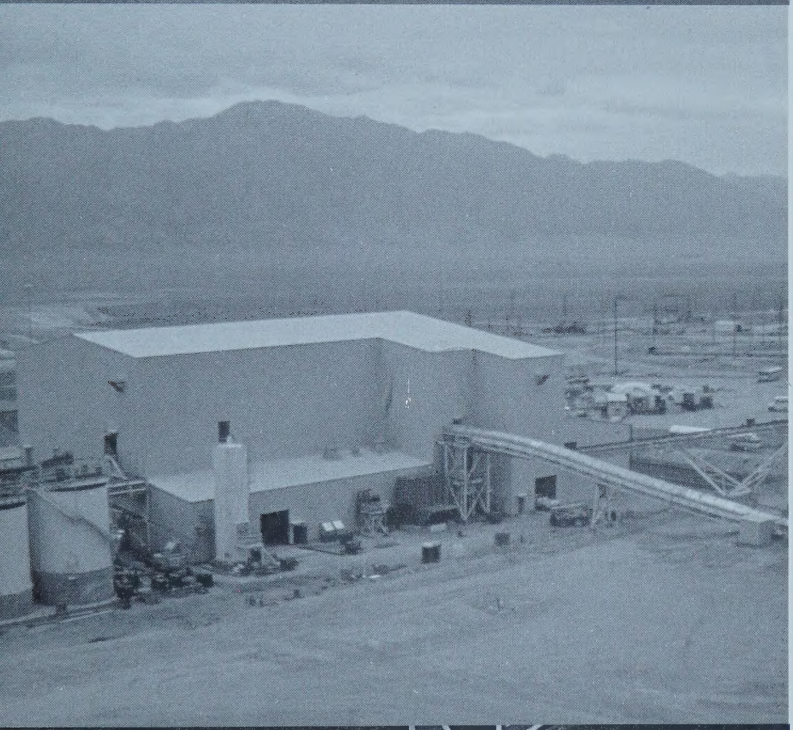
The deposit has a large component of non-oxidized ores, from which the contained gold cannot be recovered efficiently by heap leaching. Late in 1997, construction of a mill was completed to recover the gold from this type of ore. Round Mountain has already stockpiled over 3.5 million tons of non-oxidized ore, a sufficient quantity to feed the mill for more than a year.

Mill production will vary with ore grade, but is expected to average about 80,000 ounces of gold per year (Echo Bay's 50% share, 40,000 ounces).

New Mining Plan

In 1997, Round Mountain adopted a new mining plan that increases cash flow and profitability and reduces cash operating costs over the life of the mine. The new, optimized open pit design eliminates the mining of more than 250 million tons of waste rock and low-grade, high-cost material.

New mining plan improves cash flow and profitability



Above: ***A new mining plan at Round Mountain reduces costs, increasing cash flow and profitability. Round Mountain is one of the largest open pit heap leach gold mines in the world.***

Middle: ***A new mill was completed in 1997. The facility is designed to double the gold recovery rates from nonoxide ores at Round Mountain.***

Below: ***Tammy Elkins, supervisor of the heap leach and crusher utility crew, is one of the dedicated team members who have made Round Mountain our largest and lowest-cost gold producer.***

The smaller pit means less pre-stripping expense, less capital for new equipment and less associated reclamation expense. Over the life of mine, these combine to reduce cash operating costs, increasing both the cash flow from operations and the net present value of the project.

Long Life Ahead

Elimination of the marginal ounces reduced ore reserves by 1.2 million ounces (Echo Bay's 50% share, 600,000 ounces). But the mine still has more than 7.0 million ounces in reserves — at least 10 years of production at current rates — even if no more ore is discovered (which is unlikely, given the reserve growth rate in the past).

Exploration Potential

When Echo Bay acquired its interest in Round Mountain in 1985, the mine had a total of only 1.8 million ounces of reserves. Round Mountain has produced more than 4.2 million ounces since then — and still has almost twice as much gold remaining in the ground as the total amount mined in the past 12 years.

Exploration continues on targets identified within the 8,100-acre claim block, and target identification is ongoing on the large surrounding "area of mutual interest" of the three joint venture partners.

McCoy/Cove

Location: Nevada, United States

Mine type: Open pit; mill and heap leach

Ownership: 100%

1997 production:
187,034 ounces of gold; 11,021,708 ounces of silver

1997 cash operating costs:
$271 per ounce of gold; $4.04 per ounce of silver

1997 ore reserves:
915,000 ounces of gold; 46,525,000 ounces of silver

Year acquired: 1986

Total production since acquisition:
2,787,978 ounces of gold; 71,474,078 ounces of silver

The men and women who operate Echo Bay's McCoy/Cove gold and silver mine deserve credit for their accomplishments in 1997. Despite the challenges of declining grades, ever-deeper mining, and carbonaceous ore processing, they held the line on costs while continuing their exceptional safety record.

Gold and Silver

McCoy/Cove is located 30 miles southwest of the town of Battle Mountain in Nevada. When Echo Bay acquired this property in 1986, the only deposit known to exist was McCoy. Three months later and less than a mile away, the Cove deposit was discovered. This deposit contained not only gold but also a large quantity of silver. The mine has since produced more than 71 million ounces of silver, in addition to 2.8 million ounces of gold.

In 1997, the McCoy/Cove team was awarded the **1996 SENTINELS OF SAFETY AWARD** *for operating the safest large open pit mine in the United States.*

A gold producer first and foremost, McCoy/Cove now also has the distinction of being one of the largest silver-producing mines in the world.

Operations

Using large equipment to move huge volumes of material, McCoy/Cove accomplishes economies of scale that help to hold down costs in the face of declining ore grades.

More than 148,000 tons of ore and waste were mined every day in 1997. Mining is done at a rate that exceeds processing capacity, with the excess going to stockpiles for processing later. This minimizes the time and expense required to keep the Cove pit dewatered.

Lower-grade oxide ores are taken to the heap leach pads. Heap leaching economically recovers low-grade gold and silver that would not be profitable to process through a mill.

Higher-grade oxide ores, and all of the nonoxide ores, are treated in the mill. Mill processing is more costly, but it recovers more of the contained gold so the costs are spread over more ounces — thus lowering unit costs per ounce of gold recovered.

Carbonaceous Ores

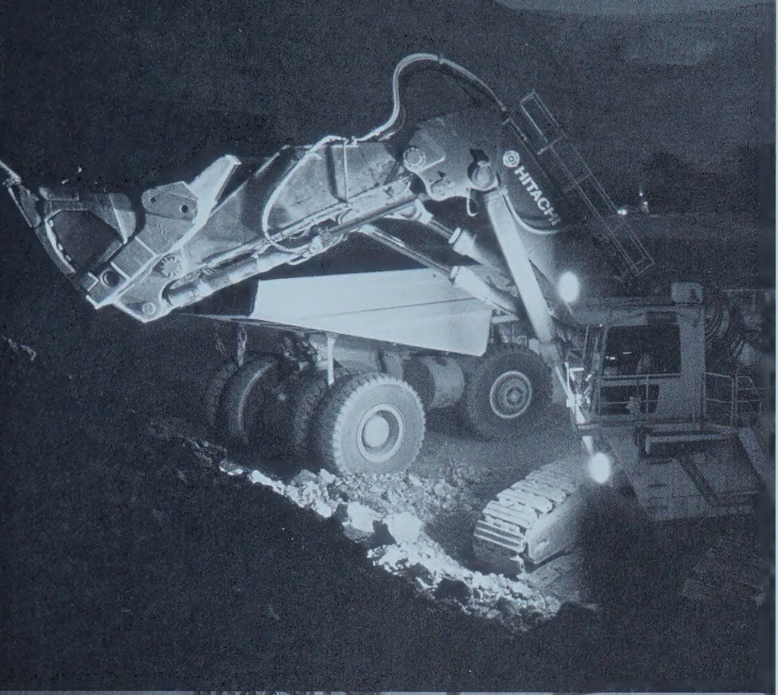
Over the years, the carbonaceous ore mined from the Cove pit has been stockpiled. Processing of this material began in the second half of 1997. This lowered our overall gold recovery rates, as the carbonaceous material is more complex to process and slightly leaner in gold.

However, it is much richer in silver. Gold production in 1997 declined by 31% to 187,034 ounces from 1996, but silver production increased by 55% to more than 11 million ounces.

Safest in America

In 1997, the McCoy/Cove team was awarded the 1996 Sentinels of Safety Award for operating the safest large surface mine in the United States.

Focused on higher-margin mill ounces to overcome current depressed gold prices



Above: ***To combat depressed gold prices, the 1998 operating plan focuses mining activities on higher-margin ounces in the Cove open pit. Cove is mined 24 hours a day, seven days a week.***

Middle: ***Large equipment is used to achieve economies of scale, holding down costs. Bob Theuret drives a 190-ton haul truck — about as tall as a three-story building.***

Below: ***Monitoring helps to maximize the effectiveness of environmental protection programs. Teri Ancho samples this infiltration pond to make sure it meets drinking water standards.***

Presented annually since 1925, this award is one of mining's most prestigious safety awards. To qualify, a mine must have at least 30,000 injury-free hours of work. McCoy/Cove far exceeded that requirement, having logged more than 800,000 hours without a lost-time injury.

Operating Changes for 1998

In response to depressed gold prices, the 1998 mining plan for McCoy/Cove was revised late in 1997. Beginning in the first quarter of 1998, costs are expected to be reduced from the full-year 1997 level by implementation of a variety of actions. The 450-person work-force was reduced by approximately 20%. Mining activities were refocused on the higher-margin mill ounces from the Cove pit. Remediation work on the Cove pit wall was postponed until the second half of 1998. Mining was discontinued in the smaller McCoy pit in December 1997, pending completion of optimization studies aimed at reducing costs. Based on a reengineered McCoy pit design, mining resumed near the end of the first quarter at a lower cost.

1998 gold production will be down slightly from earlier-planned levels, because certain lower-grade areas will not be mined until gold prices improve. The mine's new production target for 1998 is 160-170,000 ounces of gold and 7-8 million ounces of silver.

Kettle River

Location: Washington State, United States

Mine type:
Underground and also (earlier) open pit; mill

Ownership: 100% since 1993

1997 production: 129,866 ounces of gold

1997 cash operating costs: $227 per ounce

1997 ore reserves: 339,000 ounces of gold

Year of startup: 1990

Total production since startup:
758,840 ounces (Echo Bay's share, 679,810 ounces)

Located in the scenic mountains of northeastern Washington State, Kettle River produced a record 129,866 ounces of gold in 1997. In its seventh year of production, the mine has proven itself a consistent producer with a good record of replacing reserves by developing additional nearby gold deposits.

Operations

Kettle River consists of a centrally located mill fed by a series of regional deposits. Ore is currently being trucked to the mill for processing from two underground mines, Lamefoot and K-2.

Lamefoot is located nine miles from the mill. In 1997, it was the source of more than three-fourths of the gold produced at Kettle River. Lamefoot was brought into production in late 1994.

Beginning in early 1997, the ore mined from Lamefoot was blended with ore mined from K-2, which was brought into production in January 1997. Because the K-2 ore has a high clay content, blending the ores provides the best mill feed.

With the availability of more mill feed and to help overcome falling ore grades, Kettle River started operating the mill seven days a week in 1997, up from five days a week in 1996. This increased the tons of ore processed by over 25%. The increased throughput more than offset the decreased grade.

In 1997, Kettle River implemented cost savings programs and staff reductions aimed at holding the line on costs as mining encountered lower-grade ores. In 1998, production should be down slightly and unit costs should be up as mining of this lower-grade material continues.

Good History of Replacing Reserves

When operations started at Kettle River in 1990, the mine had only 450,000 ounces in reserves. Since that time it has produced over 750,000 ounces, and at the end of 1997 it still had 339,000 ounces in reserves.

During 1997, Kettle River added 92,000 ounces to reserves. The best opportunity to expand reserves at Kettle River in 1998 will be by proving up extensions of the known mineralization at Lamefoot and K-2.

Because these are underground mines, developing reserves far in advance of mining is very expensive. It's much more cost-effective to evaluate extensions of known mineralization as mining activities advance, providing the platforms for less expensive drilling as we mine. That's why Kettle River has never had more than about two or three years of production in reserves — for the past seven years.

Initial drilling on a north extension of the Lamefoot deposit indicates the presence of additional ore-grade material. Further drilling and economic evaluation need to be done on this mineralization before it can be brought into ore reserves.

Reliable producer with consistent record of replacing reserves

Above: ***Bill Coxen helped to develop the Lamefoot deposit, Kettle River's fifth deposit. At year's end, Lamefoot added 46,000 ounces of gold to ore reserves.***

Middle: ***Nestled in the scenic mountains of Washington State, Kettle River is a leader in concurrent reclamation — reclaiming one site while mining continues at another location.***

Below: ***Mike Brown (left) and Pete Houtchens helped to bring Lamefoot into production. In 1997, Kettle River produced gold from both Lamefoot and the K-2 deposit.***

K-2 also has good additional potential, with the deposit remaining open in several directions. Most of the exploration work being done currently is investigating extensions to the north and south.

Work continues on target identification and evaluation throughout the surrounding area. The historic Republic gold district has been producing gold for more than a century. The potential remains good for extending Kettle River's life by discovering more deposits.

Ongoing Reclamation

One of the most important environmental responsibilities facing Echo Bay is reclaiming the land after it has been mined. Kettle River, with its series of deposits mined in sequence, provides an ideal situation for concurrent reclamation (reclaiming one area while mining continues at other areas).

During 1997, Kettle River continued to receive recognition for its ongoing reclamation program. Before a deposit is mined out, reclamation work is begun.

Four deposits have already been mined out at Kettle River, and carefully planned land reclamation programs are well under way or nearly complete on all four.

Lupin

Location: Northwest Territories, Canada
Mine type: Underground; mill
Ownership: 100%
1997 production: 165,335 ounces of gold
1997 cash operating costs: $284 per ounce
1997 ore reserves: 543,000 ounces of gold
Year of startup: 1982
Total production since startup: 2,807,365 ounces

Late in 1997, the gold price hit 18-year lows and, despite cost-saving cutbacks, was below our projected cost of production at Lupin.

To preserve this valuable asset for better gold prices, Lupin was placed on temporary care and maintenance early in 1998. Suspending mining for the short term allows us to maintain the integrity of the mine while investigating operational improvements aimed at lowering costs.

Lupin is located 56 miles south of the Arctic Circle, the northernmost gold mine in the world outside of Russia.

More than 2.8 million ounces of gold have been produced at Lupin so far, with 543,000 ounces still remaining in ore reserves and significant other mineralization with the potential to be upgraded to ore reserves.

Until Lupin reopens, a minimum staff will remain on the site maintaining the equipment and facilities so the mine can be restarted when the time is right. The cost of keeping Lupin in this ready state is expected to be about $2.5 million a year — much less than the money that would be lost by operating at early-1998 gold prices.

Operations

Lupin is an underground mine that uses highly mechanized mining methods. The ore is crushed underground, then hoisted to the surface where the gold is recovered using conventional milling methods. Once the gold is removed, a large portion of the leftover milled rock is mixed with cement and used to backfill the mined-out sections.

A number of improvements were made in 1997, including the introduction of more efficient mining methods at depth, where the ore body is narrower. These improvements resulted in reduced dilution (the unwanted but unavoidable inclusion of some barren or low-grade rock along with the ore being mined). This increased the grade of the material sent through the mill, increasing the number of ounces of gold recovered per ton processed — lowering costs per ounce.

Potential for Improvement

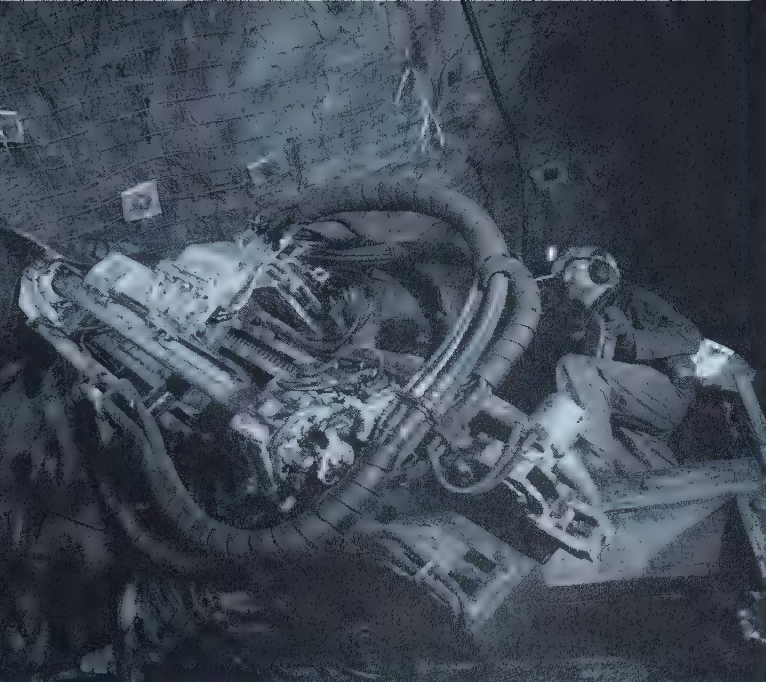
While Lupin is on care and maintenance, all aspects of operations will be reviewed with an eye toward reducing costs. As an example, a new underground hoisting system will be implemented once the project restarts. This system is designed to facilitate mining at deeper levels more economically. Improvements like this should allow Lupin to reopen with a more favorable cost structure.

Winter Road

To support operations, supplies for a full year are trucked over a 360-mile winter road to the remote site once a year. This year, the winter road will bring in the supplies necessary for care and maintenance.

The road is plowed through the snow and across the frozen lakes between Yellowknife and Lupin. It is the most economical way to bring in fuel, cement and other bulky supplies. Echo Bay builds it; other users pay fees for their share of the costs.

Valuable asset to be preserved for better gold prices



Above: *Bill Chernoff readies a stope for future production at Lupin. With gold prices below the projected cost of production in early 1998, operations were temporarily suspended to preserve the ore body for profitable operations when prices rise.*

Middle: *Lupin increased ore reserves by more than 100,000 ounces of gold in 1997. Here, Pat Dumont (left) and Frank Bolt carefully log drill core.*

Below: *Bulky supplies are trucked to Lupin over a 360-mile ice road built every January across the frozen lakes between Yellowknife and Lupin.*

McPherson Zone

Ore reserves increased at Lupin during 1997 due to the discovery of a new area of mineralization. Named the McPherson Zone after the underground shift supervisor who was instrumental in its discovery, it will be explored more extensively when operations resume at Lupin to see if reserves can be further expanded.

Ulu Satellite Deposit

Work advanced in 1997 on Ulu, a satellite deposit being developed to provide supplemental mill feed to Lupin. By mid-year, an underground ramp had advanced to a depth of about 150 meters (490 feet) beneath the surface when work was suspended due to deteriorating market conditions. The main zone of mineralization starts at about this depth.

Future

It doesn't make sense to continue operating Lupin when gold prices are far below anticipated production costs. What does make sense is to preserve the asset, analyze potential operating improvements, wait until gold prices improve and the timing is right, and then reopen Lupin.

Aquarius

Location: Ontario, Canada

Mine type: Proposed open pit; mill

Ownership: 100%

Status: Construction awaits improved gold prices

Planned average annual production:
166,000 ounces of gold

Target cash operating costs: $218 per ounce

1997 ore reserves: 1,274,000 ounces of gold

In 1997, Echo Bay continued development of Aquarius, the company's newest gold mine-to-be, located in the Timmins mining district of Canada. In response to the significant decline in gold prices during the year, the development pace of Aquarius was slowed and further activity is now being deferred until gold prices improve.

Operations

Aquarius is designed to use open pit mining methods to feed an on-site mill with a rated capacity of 7,500 metric tonnes per day (8,267 short tons per day). After the ore has been crushed and ground, a gravity circuit will recover the high-grade nuggets of gold. The remaining gold will be recovered from a carbon-in-pulp mill circuit.

This processing method is anticipated to recover up to 95% of the contained gold, resulting in average annual gold production of 166,000 ounces at an estimated cash operating cost of $218 per ounce of gold produced.

This would make Aquarius one of our lowest-cost mines.

Freeze Wall

Aquarius is located in an area with a large quantity of subsurface water. To keep this water out of the open pit, Echo Bay is applying old technology in a new way. For many years, subsurface freezing has been used when constructing tunnels and boring shafts. At Aquarius, this same process will be used to freeze the ground around the open pit, creating an impermeable barrier to keep subsurface water from migrating into the pit.

In 1997, a majority of the construction was completed on the freeze wall facilities at Aquarius. Over 2,300 pipes were installed around the proposed open pit down through the ground into bedrock. When gold prices improve and construction resumes, two refrigeration units will circulate super-cooled brine through the circuit, freezing the ground around the pipes into a solid barrier up to 10 feet thick. The ground water inside the barrier will then be pumped out. The barrier will prevent external water from infiltrating the pit.

Use of this technique significantly reduces dewatering costs. It also protects the water levels of the area's many lakes.

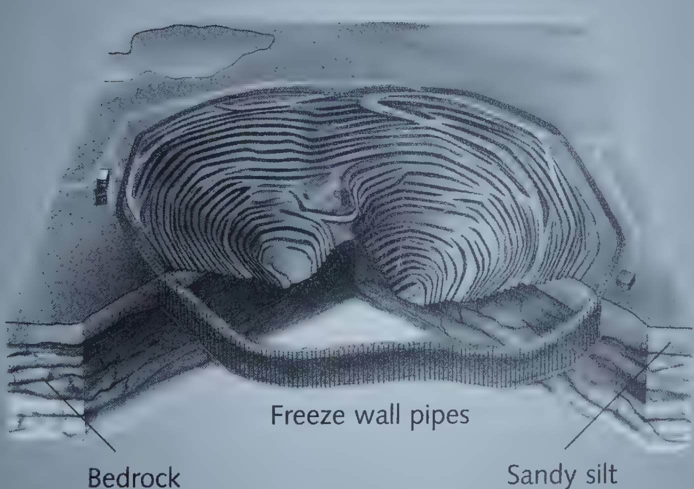
During 1997, over $40 million was invested in the freeze wall and acquiring the necessary land rights and permits for Aquarius. When gold prices improve, freezing can be in progress while the mill facilities are being built. This will allow the mine to start producing gold more rapidly.

Exploration Potential

The Aquarius land position was significantly increased in 1997, and initial exploration work on this acreage indicates excellent potential for additional mineralization. A number of targets were tested in 1997, and work will continue on those with the more promising initial results.

Timing of new mine development is tied to market conditions

Aquarius "freeze wall"



Paredones Amarillos

Location: Baja California Sur, Mexico

Mine type: Proposed open pit; mill

Ownership: 60%

Status: Construction awaits improved gold prices

Planned average annual production:
128,000 ounces of gold
(Echo Bay's 60% share, 77,000 ounces)

Target cash operating costs: $223 per ounce

1997 ore reserves: 1,482,000 ounces of gold
(Echo Bay's 60% share, 889,000 ounces)

Paredones Amarillos, designed to become one of the largest gold mines in Mexico, is awaiting improved gold prices before advancing into construction. The project has all the necessary permits. Completion of detailed engineering and project financing were in progress when 18-year lows in the gold price required temporary deferral.

Echo Bay and its 40% partner, Viceroy Resources Corporation, plan an open pit mine and on-site mill to produce an average of 128,000 ounces of gold per year (Echo Bay's 60% share, 77,000 ounces).

Growing Ore Reserves

Continued exploration increased ore reserves at Paredones Amarillos to almost 1.5 million ounces of gold in 1997 (Echo Bay's 60% share, 889,000 ounces). Additional exploration on the 31,500-acre site is expected to further expand reserves in future years.

Above: ***In Canada, geologists Elizabeth Johnson and Ryburn Norman plan our newest mine-to-be. Aquarius is designed to be one of Echo Bay's lowest-cost gold producers.***

Middle: ***The underground "freeze wall" at Aquarius is a cost-effective way to keep subsurface water out of the open pit. It will also protect the water levels of nearby lakes.***

Below: ***At Paredones Amarillos in Mexico, Jorge Cordero (left) and Nemesio Alvarez prepare drill samples for assay lab analysis. Construction of the mine awaits improved gold prices.***

Exploration

We narrowed our exploration focus in 1997 to those projects believed to have the lowest risks and greatest potential for near-term returns. This means exploring principally in the Americas, especially in areas where an infrastructure is already in place at existing mines and development properties — such as Nevada, home of our two largest mines.

Difficult Times, Difficult Choices

With gold prices near 18-year lows, much less will be spent on exploration in 1998 than in 1997. Only the most promising prospects will be advanced. Our goal is to reduce cash expenditures while conserving assets for a time of improved gold prices.

With the higher expenses of international exploration, the projects most affected by our reduced spending will be outside North America. Where possible, these assets will be preserved for resumption of work when gold prices recover.

Geologists Hugh MacKinnon and Brenda Hodgins explore a gold showing, with help from Brodie. We have refocused our exploration near existing mines and development properties.

An example is our 50% interest in Kuranakh, an early-stage project in Russia. Further work there is subject to successful negotiation of acceptable production-sharing and gold sales agreements with the Russian government, additional feasibility analysis and other work, in addition to improved gold prices.

Nevada: Go Where the Gold Is

With its long history of gold production and miner-friendly attitude, Nevada will be the major regional focus for Echo Bay in 1998 and beyond.

Prospects include Bald Peak, identified by outcroppings along the Nevada-California border, where surface sample results indicate gold mineralization. Shallow drilling at Jessup, a project northeast of Reno, helped us to understand the geological structures and identify several new targets. At Ratto Canyon, northeast of Round Mountain on the Battle Mountain/Eureka Trend, recent drilling has identified a new area of mineralization.

In and Around Our Operations

A potential extension of the mineralization at Round Mountain has been identified at depth to the north. The extent and economics of this mineralization will continue to be evaluated in 1998.

Additional reserves were identified at Kettle River from extensions of both Lamefoot and K-2 during the year. More work will be done.

Several targets have been identified around Aquarius. The land position has been increased in recognition of the potential for new discoveries in the area.

New exploration focus emphasizes lower risks, nearer-term returns

1997
A Troubled Year for Gold

by Timothy Green

Timothy Green is an authority on worldwide gold markets. He has been writing about gold for more than 30 years, notably in his books The World of Gold *and* The Gold Companion.

The headlines seem contradictory: "Demand for gold at record levels" and "Gold price at 18-year lows."

But that's the story of the gold market in 1997. Physical demand surged to an astonishing 129 million ounces, up 16% from 1996, while the gold price slipped to its lowest point since 1979.

What went wrong? The short answer is sentiment. The gold market became traumatized at the prospect of central bank gold sales, and that fear led to speculative short selling by the hedge funds and extra forward selling by producers trying to beat the anticipated gold price fall.

Asia's economic problems compounded the problem not only by reducing gold purchases, but also by leading to distress dishoarding.

The Role of Central Banks

At the outset, let's get a sense of perspective on the selling of gold by the central banks of various nations around the world.

Central banks have been net sellers into the gold market since 1989, so their presence is nothing new. Indeed, demand for gold for jewelry and industrial uses regularly exceeds new mine supply each year, with the result that central banks have come to fill in the gaps. Central banks today are part of the normal supply/demand equation.

In 1997, net central bank sales were around 13 million ounces — ironically, much lower than five years earlier when central bank sales approached 20 million ounces (yet the gold price was $50-80 higher per ounce of gold).

What drove the gold price down?

Spooking the Market

The market was perturbed initially by a surprise announcement from the central bank of Australia that it had sold 5.4 million ounces, two-thirds of its gold reserves.

Next, Argentina announced that it had sold more than four million ounces, its entire reserves.

The impact of these two announcements on market sentiment was large, despite the fact that the amounts of gold actually sold were not.

Next came indications that Germany's Bundesbank might revalue (although not sell) its substantial gold reserves.

And then Switzerland suggested it might sell gold to meet its obligations to the new fund for Holocaust victims. In addition, a government-appointed panel proposed that Switzerland reduce the legal requirement that its debt be 40% backed by gold.

The fact that the proposal was just that — a proposal — made no difference. Nor did the fact that such a change would require voter approval in a referendum which might not take place for years.

The damage was done. The prospect of steady central bank sales for many years was firmly implanted in speculators' minds.

More Uncertainty to Come

Still to come: even more uncertainty.

What role, if any, will gold play in the creation of the new European currency, the "euro," now set for launch on January 1, 1999?

No decision has yet been reached. Many believe that gold will provide between 10% and 20% of the reserve backing for the new currency (the rest being mainly U.S. dollars). But the new European Central Bank does not come into being until July 1998, so the outcome is uncertain.

Other Side of the Coin

But what about the other side of the coin?

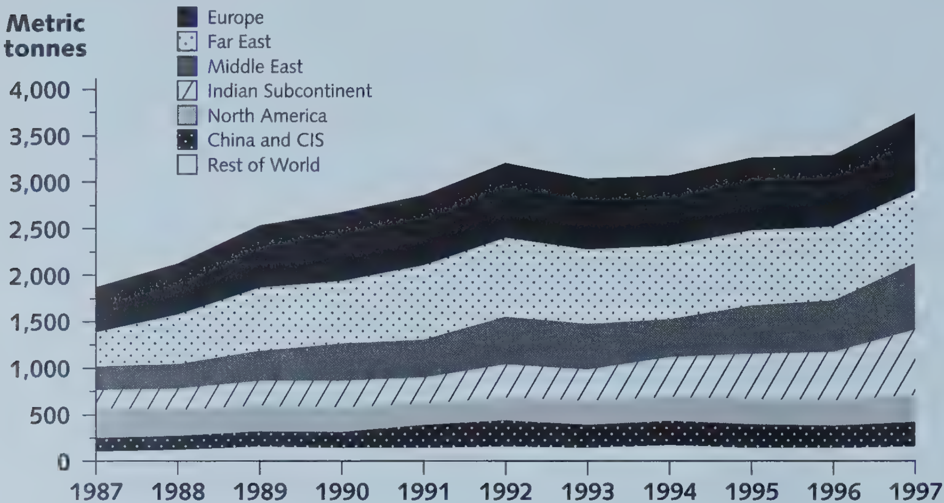
Other nations' central banks have been buying gold. China has said that it requires substantial national gold holdings in order to preserve a stable currency in that burgeoning economy. Russia's central bank has been trying to build up its gold reserves, principally by stockpiling local gold mine output.

Sixteen other countries have been pinpointed by the research group Gold Fields Mineral Services as net buyers of gold in 1997.

The reality is that central banks are an integral part of today's market. They buy gold, they sell gold, they lend gold, they swap gold for foreign exchange.

Gold's Appeal Is Global

Worldwide Fabrication Demand



Source: Gold Fields Mineral Services Ltd.

All told, their selling is a relatively small contribution to the basic gold market arithmetic. In 1997, worldwide mine output was 77 million ounces and scrap sales were 19 million ounces, while selling by central banks provided only 13 million ounces.

Forward selling by gold miners contributed another 13 million ounces. The balance of the shortfall in supply came mainly from short-selling by hedge funds.

Demand Is Surging

Fabrication demand for jewelry, industrial uses and coinage was a record 120 million ounces in 1997, with a further nine million ounces for physical bar hoarding (mainly in India and the Middle East).

The key point is that nowadays less than 65% of the metal required for fabrication alone comes from mines; the rest is from previously mined, aboveground stocks.

Remember that since 1990, fabrication demand has risen by almost 40%, while gold mine supply is up by only 12% (and may actually decline in the future, with depressed prices causing early mine closures and postponements of new projects).

The reality is that physical demand for gold easily exceeds gold mine production and will continue to do so, even with the present economic slowdown in Asia.

Worldwide Fabrication Demand

The underlying strength of fabrication is that it is not dependent on any one country or region. Gold jewelry is for everyone, everywhere.

So is the gold used in semiconductors, printed circuits and connectors in the electronic consumer goods that we all use daily — a function of gold's unique conductivity and resistance to corrosion.

Gold is at home in a high-tech world. The electronics industry alone required nearly eight million ounces of gold in 1997 (equal to three-quarters of the total gold mine production in the United States), up 17% over a decade ago.

Jewelry remains by far the largest market for gold, needing more than 103 million ounces in 1997. India is the biggest consumer, requiring over 18 million ounces, ahead of the United States, China and Saudi Arabia.

Jewelry buying was particularly strong in Saudi Arabia and the Arabian Gulf states in 1997, stimulated by unusually low gold prices.

In East Asia, however, the 1997 economic upheavals and currency devaluations took a serious toll on jewelry sales (as on all consumer goods). Devaluations in Indonesia, South Korea and Thailand led to increases in local gold prices of 50% or more and led to dishoarding.

Gold's Appeal Is Global

Jewelry fabrication demand was resilient elsewhere, not only in traditional markets such as western Europe and the United States but also in such unexpected areas as Turkey (where manufacturing rose over 20%, buoyed by exports to the United States, Russia and neighboring Commonwealth of Independent States republics).

Eastern Europe is another rapidly growing market. So is Latin America, where fabrication has doubled in a decade, with Brazil and Mexico posting increases of more than 10% in 1997.

Such diversification worldwide is gold's best asset for the future.

Gold's appeal is global.

Timothy Green's book,
The World of Gold, *may be purchased from The Gold Institute in Washington, D.C. (telephone: 202 835-0185).*
A new edition of his
The Gold Companion *is available from MKS Finance, Geneva (fax: 41 22 311-1800).*

Management's Discussion and Analysis

Summary

The company had a net loss of $420.5 million ($3.06 per share) in 1997, compared with net losses of $176.7 million ($1.31 per share) in 1996 and $50.1 million ($0.43 per share) in 1995.

The 1997 results reflect $346.0 million in provisions for asset impairment recognized as a result of a major asset reevaluation and downsizing program undertaken by the company in response to gold market conditions (see note 9 on pages 29-30). The 1997 results also reflect $16.7 million of severance expense related to the downsizing, lower gold and silver prices realized and lower volume of gold sold.

The average gold price realized by the company in 1997 was $362 per ounce, including forward sales, loan repayments and the recognition of deferred gains related to repurchased forward sales contracts. This was above the average market price of $332 per ounce in 1997 but lower than the $384 per ounce average price realized in 1996. The company has hedged its entire estimated 1998 gold production at a minimum average price of $340 per ounce, so 1998 revenue and cash flow will not be reduced by any potential further decline in the gold price.

Revenue will be reduced in 1998 from 1997 due to lower planned production resulting from a temporary suspension of operations at Lupin and a scale-back of operations at McCoy/Cove, the company's two highest-cost mines, in response to market conditions. Production targets for 1998 are 500-520,000 ounces of gold and 7-8 million ounces of silver.

In 1997, net cash flows used in operating activities were $9.2 million after cash exploration and development expenses of $34.5 million.

The company's sharply reduced exploration and development programs, in response to market conditions, may be expected to limit the discovery and development of new reserves. Over the long term, this could have adverse implications since Lupin and McCoy/Cove are nearing the ends of their mine lives.

Results of Operations

Revenue declined to $305.4 million in 1997 principally due to lower gold prices realized and lower production at McCoy/Cove and Lupin related to declining ore grades. In 1996, revenue declined to $337.3 million from $360.7 million in 1995, primarily because of decreased silver production, a function of the planned processing of lower silver grades at the McCoy/Cove mine, only partly offset by increased gold production at other mines.

Gold and silver hedging: The company's profitability is determined in large part by gold and silver prices. Market prices of gold and silver are determined by factors beyond the company's control. Echo Bay reduces the risk of future price declines by hedging a portion of its production. The principal hedging tools used are gold and silver loans, forward sale contracts, spot-deferred contracts, swaps and options. The company's hedging activities and commitments are described in detail in note 18 on pages 37-39.

In 1997, the company delivered 6% of its gold production against forward sales and gold loans at an average price of $397 per ounce, excluding the recognition of deferred gains on repurchased forward sales contracts. This compares with 25% of gold production in 1996 at an average price of $375 and 22% of 1995 production at an average price of $395.

The company delivered 7% of its silver production against forward sales in 1997, 45% in 1996 and 47% in 1995 at average prices of $5.32, $5.85 and $5.48 per ounce respectively, excluding the recognition of deferred gains on repurchased forward sales contracts.

Including transactions completed in the first quarter of 1998, the company has protected itself against price declines in 1998 by hedging its entire planned 1998 gold production at a minimum average price of $340 per ounce, along with 5.9 million ounces of silver at $5.44 per ounce. In addition, the company has hedged approximately 330,000 ounces of gold in 1999 at a minimum average price of $365 per ounce and 4.0 million ounces of silver at $5.77 per ounce.

Operating costs: Consolidated cash operating costs were $249 per ounce of gold produced in 1997, $254 in 1996 and $229 in 1995. The 1997 decrease reflected a series of cost-reduction initiatives, along with increased dedicated pad tonnage and higher reusable pad recoveries at Round Mountain. The 1996 increase was principally due to the planned mining of lower-grade ores. Cash operating costs per ounce vary with the number of tons and grade of ore processed. They generally reflect mining and processing costs, most significantly labor, consumable materials, repairs of machinery and equipment, fuel, utilities and environmental compliance.

The company's cash operating cost target for 1998 is $245-255 per ounce of gold produced.

Royalties decreased to $8.3 million in 1997 from $9.6 million in 1996 primarily due to lower precious metals prices. They increased in 1996 from $8.4 million in 1995 because of higher gold production. The company's target for 1998 is $8-9 million, reflecting similar levels of royalty-bearing production. Details of the company's royalties are provided in note 19 on page 39.

Production taxes decreased in both 1997 and 1996 due to lower precious metals prices and lower gold production at McCoy/Cove. Less cash flow reduces the net profit on which the production taxes are calculated. Production taxes are expected to be about the same in 1998 as 1997.

Depreciation and amortization decreased to $79.3 million from $86.5 million in 1996. Amortization varies with the quantity of gold and silver sold and the mix of production from the various mines. The quantities of the company's proven and probable reserves and other mineralization also affect amortization expense, as the company's investment is amortized over these ounces. In 1997, the $2.3 million decrease in amortization expense resulted primarily from the impact of the third quarter 1997 write-down of ore body carrying values at Lupin and Kettle River. The $4.9 million decrease in depreciation expense reflected the fact that as McCoy/Cove approaches the end of its useful life, major groups of its assets are fully depreciated and not being replaced. In 1996, the $2.6 million decrease in depreciation and amortization resulted principally from reduced silver production, partly offset by increased gold production.

For 1998, the company expects depreciation and amortization expense to be in the range of $65-70 million, down significantly from $79.3 million in 1997, $86.5 million in 1996 and $89.4 million in 1995. The main reason for the expected decline is the write-down in late 1997 of the carrying values of the Lupin and Kettle River mines (note 9 on pages 29-30).

On a per-ounce basis, depreciation and amortization expense was $90 in 1997, $98 in 1996 and $97 in 1995. The depreciation portion alone was $58, $64 and $61 respectively; the amortization portion was $32, $34 and $36 respectively.

Reclamation and mine closure expense increased each year, reflecting increased accruals for reclamation and closure activities (see notes 8 and 9 on pages 29-30). For 1998, the company expects this expense to be in the range of $7-8 million.

General and administrative costs were sharply reduced in 1997, reflecting the downsizings undertaken in response to depressed gold prices. These costs had risen in 1996, mostly due to increased permitting, exploration and business development activities.

In 1998, the company expects general and administrative costs to decline further. The 1998 target is $9-10 million, down from $10.9 million in 1997.

Exploration and development expense was nearly halved, to $34.9 million in 1997 from $63.6 million in 1996, in response to depressed gold prices. In 1996, it declined more modestly from $69.8 million in 1995, reflecting a reduction in activity and personnel at the Alaska-Juneau development project. The Alaska-Juneau project was written off at year-end 1996. Exploration and development expenses in 1995 and 1996 reflected the company's stepped-up efforts to locate and develop potential new gold deposits in response to the maturation of the McCoy/Cove and Lupin mines.

For 1998, the company has further reduced its exploration and development budget to a total of $7 million. The budget will be reviewed if gold prices improve.

Interest and other expenses are described in note 10 on pages 30-31. The net interest expense portion was $2.6 million in 1997 and $2.1 million in 1996, compared with net interest income of $4.8 million in 1995, reflecting decreased cash on hand and increased currency financings beginning in 1996. The other portion includes an unrealized loss of $6.6 million in 1997 due to market declines in the company's share investment portfolio, partially offset by a $3.9 million gain on the sale of an option interest in an exploration property.

Provision for impaired assets and other charges of $362.7 million in 1997 consists of $346.0 million in provisions for impaired assets and $16.7 million for severance costs (note 9 on pages 29-30), in response to market conditions.

The $346.0 provision includes $50.0 million to write off the Kingking project in the Philippines; $143.6 million to write off the company's investment in Santa Elina; $127.0 million to reduce the carrying values of Lupin ($65.0 million), McCoy/Cove ($47.0 million) and Kettle River ($15.0 million); and $25.4 million to write down certain share investments and other assets to market value and to provide for estimated legal and closure expenses.

The $107.1 million charge in 1996 consisted of $77.1 million to write off the company's entire investment in the Alaska-Juneau project, including a $20.0 million reserve to cover estimated reclamation and closure responsibilities, and a $30.0 million provision for McCoy/Cove pit wall stabilization (note 9 on pages 29-30).

Income tax expense is described in note 11 beginning on page 31.

Dividends on preferred stock of subsidiary were eliminated in late 1995 when the company eliminated the entire issue of convertible preferred stock of a subsidiary (note 14 on page 33).

Liquidity and Capital Resources

In December 1997, the price of gold fell as low as $281.35 per ounce, its lowest level in 18 years. The company needs a significantly higher gold price before it will resume operations at the Lupin mine, proceed with construction of the Aquarius or the Paredones Amarillos mines, expand its exploration activities, or pursue new acquisitions or investments.

Lower gold prices reduced 1997 cash flows. Net cash flows used in operating activities were $9.2 million in 1997, compared with net cash flows provided from operations of $29.9 million in 1996. The 1997 results reflect lower precious metals prices realized ($31.5 million); lower gold sales volume, partly offset by higher silver sales volume ($14.5 million); timing differences on accounts payable related primarily to the payment of interest and dividends ($12.1 million); and an increase in inventories in 1997 compared with a decrease in 1996 ($7.1 million). These factors were partially offset by lower cash development and exploration expense ($22.1 million) and decreased operating costs ($8.0 million). Most of the exploration and development properties spending represents discretionary investments for the future.

Cash used in financing activities was $24.0 million in 1997. Outflows were primarily related to debt repayments of $131.7 million. The company had net proceeds of $96.7 million on the issuance of capital securities and currency borrowings in the amount of $15.5 million.

Net cash used in investing activities in 1997 totaled $53.0 million. Included were $112.0 million for mining properties, plant and equipment and $21.6 million for long-term investments (including $13.5 million in Santa Elina and $7.6 million in other investments), partially offset by proceeds of $69.1 million from the company's repurchase of its outstanding gold and silver forward sales, a 218,000-ounce gold delivery commitment that hedged an $84.0 million bond obligation, and foreign currency exchange contracts, plus proceeds of $11.0 million on the sale of various share investments and the option interest in the Dolores property in Mexico.

At December 31, 1997, the company had $85.0 million in unutilized credit facilities, of which $29.5 million was actually available for borrowing due to the low gold price. Depressed gold prices limit the company's ability to borrow under its revolving credit facility, which is measured at the end of each quarter. Continuation of gold prices at depressed levels could have the effect of reducing or eliminating the company's capacity to borrow under its existing credit facilities. For this reason, the company and its lenders are in discussions aimed at restructuring the terms of its credit facilities to provide more liquidity than is currently available in the event of a continued period of depressed gold prices.

At year-end 1997, the company had $17.0 million in cash and cash equivalents and $10.3 million in short-term investments. In January 1998, it received an additional $8.7 million in cash on the repurchase of a portion of its outstanding gold forward sales (note 18 on pages 37-39).

At December 31, 1997, the company's current debt was $14.8 million and its long-term debt was $51.7 million.

In March 1997, the company issued $100.0 million of 11% capital securities due 2027 (note 7 on pages 28-29). The company has the right to defer interest payments on the capital securities for up to 10 consecutive semiannual periods. During a period of interest deferral, interest accrues at a rate of 12% per annum, compounded semiannually. The company, at its option, may satisfy its deferred interest obligation by delivering common shares to a trustee for sale, the proceeds of which would be remitted to the holders of the securities in payment of the deferred interest. The present value of the capital securities' principal amount, $4.2 million at year-end 1997, is classified as debt. The present value of the future interest payments, $95.8 million, is a separate component of shareholders' equity. In March 1998, the company exercised its right to defer its April 1998 interest payment to holders of the capital securities.

In response to market conditions, during 1997 the company reduced its planned 1997 capital expenditures from $189 million to $104 million. The company has further reduced its 1998 capital expenditure budget to a total of $13 million. The company will rely on its operating cash flow and credit facilities to fund its planned 1998 capital expenditures. The company will monitor carefully its discretionary spending in view of the current low gold price environment and the cost structure of its operating mines.

Other commitments and contingencies are discussed in notes 9, 18 and 19 beginning on page 29.

Impact of Year 2000

Some of the company's computer programs are written using two digits rather than four to define the applicable year, and may therefore recognize the digits "00" as the year 1900 rather than 2000. This could result in a system failure or miscalculation causing disruption of operations including, among other things, a temporary inability to process transactions, pay invoices or engage in similar normal business activities. The company has completed an assessment of the year 2000 issue and will modify or upgrade portions of its software. The company believes that following these modifications or upgrades, the issue will not result in any significant impact on the operations of the company or its computer systems. All work is expected to be completed by the end of 1998 at an estimated total cost of less than $1 million. These costs are being expensed as incurred. To date, the company has completed approximately 20% of the project, which is on schedule. The expected costs and date of completion are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those anticipated.

Management's Responsibility For Financial Reporting

The accompanying financial statements and related data are the responsibility of management. Management has prepared the statements in accordance with accounting principles generally accepted in Canada.

The integrity of the financial reporting process is also the responsibility of management. Management maintains systems of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and reliable financial information is produced. Management selects accounting principles and methods that are appropriate to the company's circumstances, and makes decisions affecting the measurement of transactions in which estimates or judgments are required to determine the amounts reported.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee consists entirely of outside directors. The Committee meets periodically with management and the external auditors to discuss internal financial controls, auditing matters and financial reporting issues. The Committee satisfies itself that each party is properly discharging its responsibilities; reviews the quarterly and annual financial statements and the external auditors' report; and recommends the appointment of the external auditors for review by the Board and approval by the shareholders.

The external auditors audit the financial statements annually on behalf of the shareholders. They also performed certain procedures related to the company's unaudited interim financial statements and report their findings to the Audit Committee. The external auditors have free access to management and the Audit Committee.

Robert L. Leclerc, Q.C.
Chairman and
Chief Executive Officer

Peter H. Cheesbrough
Senior Vice President, Finance
and Chief Financial Officer

March 17, 1998

Auditors' Report

To the Shareholders of Echo Bay Mines Ltd.:

We have audited the consolidated balance sheet of Echo Bay Mines Ltd. as at December 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings (deficit) and cash flow for each of the years in the three-year period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements on pages 21, 22 and 23 present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and changes in its financial position for each of the years in the three-year period ended December 31, 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Chartered Accountants
Edmonton, Canada
January 26, 1998 except for notes 7, 18 and 19 as to which the date is March 17, 1998

Consolidated Balance Sheet
December 31

Millions of U.S. dollars	1997	1996
Assets		
Current assets:		
Cash and cash equivalents	**$ 17.0**	$ 103.2
Short-term investments (note 2)	**10.3**	—
Interest and accounts receivable	**5.9**	9.7
Inventories (note 3)	**41.2**	33.9
Prepaid expenses and other assets	**5.1**	6.6
	79.5	153.4
Plant and equipment (note 4)	**238.9**	234.0
Mining properties (note 4)	**107.8**	405.0
Long-term investments and other assets (note 2)	**6.6**	39.7
	$ 432.8	$ 832.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 82.4**	$ 72.4
Income and mining taxes payable	**3.5**	3.6
Current portion of gold and other financings (note 6)	**14.8**	129.4
Current portion of deferred income (note 6)	**7.5**	0.9
	108.2	206.3
Long-term gold and other financings (note 6)	**51.7**	53.5
Long-term deferred income (note 6)	**54.7**	1.6
Other long-term obligations (note 8)	**56.6**	70.0
Deferred income taxes	**7.9**	8.4
Commitments and contingencies (notes 9, 18 and 19)		
Common shareholders' equity:		
Common shares (note 13), no par value, unlimited number authorized; issued and outstanding – 139,370,031 shares (139,355,781 shares in 1996)	**709.6**	709.5
Capital securities (note 7)	**95.8**	—
Deficit	**(631.3)**	(201.9)
Foreign currency translation	**(20.4)**	(15.3)
	153.7	492.3
	$ 432.8	$ 832.1

See accompanying notes.

On behalf of the Board:

Robert L. Leclerc, Q.C.
Director

Latham C. Burns
Director

Consolidated Statement of Earnings

Year ended December 31

Millions of U.S. dollars, except for per share data	**1997**	1996	1995
Revenue	**$ 305.4**	$ 337.3	$ 360.7
Expenses:			
Operating costs	**213.1**	221.1	212.2
Royalties (note 19)	**8.3**	9.7	8.4
Production taxes	**0.9**	2.4	4.3
Depreciation and amortization	**79.3**	86.5	89.4
Reclamation and mine closure	**8.8**	6.3	5.0
General and administrative	**10.9**	13.6	12.2
Exploration and development	**34.9**	63.6	69.8
Interest and other (note 10)	**5.2**	3.1	4.2
Provision for impaired assets and other charges (note 9)	**362.7**	107.1	—
	724.1	513.4	405.5
Loss before income taxes	**(418.7)**	(176.1)	(44.8)
Income tax expense (recovery) (note 11)	**1.8**	0.6	(3.2)
Loss before preferred stock dividends	**(420.5)**	(176.7)	(41.6)
Preferred stock dividends of subsidiary (note 14)	**—**	—	8.5
Net loss	**$(420.5)**	$(176.7)	$ (50.1)
Net loss attributable to common shareholders (note 7)	**$(426.2)**	$(176.7)	$ (50.1)
Loss per share	**$ (3.06)**	$ (1.31)	$ (0.43)
Weighted average number of shares outstanding	**139,366,794**	134,434,054	116,233,019

Consolidated Statement of Retained Earnings (Deficit)

Year ended December 31

Millions of U.S. dollars	**1997**	1996	1995
Balance, beginning of year	**$(201.9)**	$ (15.1)	$ 44.1
Net loss	**(420.5)**	(176.7)	(50.1)
Dividends on common shares (note 13)	**—**	(10.1)	(9.0)
Excess of redemption price of preferred shares redeemed over original proceeds (note 14)	**—**	—	(0.1)
Interest on capital securities, net of nil tax effect (note 7)	**(5.7)**	—	—
Issue costs related to capital securities (note 7)	**(3.2)**	—	—
Balance, end of year	**$(631.3)**	$(201.9)	$(15.1)

See accompanying notes.

Consolidated Statement of Cash Flow

Year ended December 31

Millions of U.S. dollars	1997	1996	1995
Cash Provided by (Used in):			
Operating Activities			
Net loss	**$(420.5)**	$(176.7)	$ (50.1)
Add (deduct):			
Depreciation	**51.9**	56.7	56.2
Amortization	**27.4**	29.8	33.2
Preferred stock dividends of subsidiary (note 14)	**—**	—	8.5
Non-cash portion of provision for impaired assets and other charges (note 9)	**355.8**	107.1	—
Unrealized losses on share investments (note 2)	**6.6**	—	—
Deferred income included in revenue (note 18)	**(14.1)**	—	—
Non-cash portion of exploration and development expense	**0.4**	7.0	9.4
Deferred income taxes	**(0.3)**	0.3	(0.4)
Environmental expenses at non-producing properties	**—**	—	12.9
Gain on sale of assets	**(8.8)**	(4.4)	(5.5)
Other	**1.1**	6.0	2.1
Change in cash invested in operating assets and liabilities:			
Interest and accounts receivable	**2.2**	(0.2)	(2.7)
Inventories	**(5.8)**	1.4	(3.6)
Prepaid expenses and other assets	**2.8**	(0.4)	(0.1)
Accounts payable and accrued liabilities	**(8.8)**	3.2	6.7
Income and mining taxes payable	**0.9**	0.1	0.7
	(9.2)	29.9	67.3
Financing Activities			
Currency borrowings	**15.5**	34.7	28.0
Debt repayments	**(131.7)**	(38.2)	(9.9)
Capital securities issued, net of issuance costs (note 7)	**96.7**	—	—
Equity portion of interest on capital securities (note 7)	**(4.3)**	—	—
Preferred stock dividends of subsidiary (note 14)	**—**	—	(8.5)
Common share dividends (note 13)	**—**	(10.1)	(9.0)
Preferred share conversions and redemptions (note 14)	**—**	—	(136.5)
Common shares issued on acquisition of Santa Elina, net of issuance costs (note 5)	**—**	85.8	—
Common share issues, net of issuance costs (note 13)	**0.1**	4.8	135.9
Other	**(0.3)**	—	—
	(24.0)	77.0	—
Investing Activities			
Mining properties, plant and equipment	**(112.0)**	(103.7)	(81.5)
Cost of Santa Elina acquisition (note 5)	**—**	(97.1)	—
Proceeds on repurchase of the company's (note 18):			
Gold and silver forward sales	**55.0**	—	—
Gold swap	**8.1**	—	—
Foreign exchange contracts	**6.0**	—	—
Short-term investments	**3.1**	—	—
Long-term investments and other assets	**(21.6)**	(3.5)	(47.6)
Proceeds on sale of mining properties	**—**	—	32.6
Proceeds on sale of long-term investments	**7.9**	13.8	12.1
Other	**0.5**	1.0	1.4
	(53.0)	(189.5)	(83.0)
Net decrease in cash and cash equivalents	**(86.2)**	(82.6)	(15.7)
Cash and cash equivalents, beginning of year	**103.2**	185.8	201.5
Cash and cash equivalents, end of year	**$ 17.0**	$ 103.2	$185.8

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1997
Tabular amounts in millions of U.S. dollars, except amounts per share and per ounce or unless otherwise noted

1. Summary of Significant Accounting Policies

General
Echo Bay Mines Ltd. mines, processes and explores for gold and silver. Gold accounted for 83% of 1997 revenue, and silver 17%. In 1997, the company had four operating mines: Round Mountain in Nevada, USA; McCoy/Cove in Nevada, USA; Lupin in the Northwest Territories, Canada; and Kettle River in Washington, USA. All are 100% owned except for Round Mountain, which is 50% owned. In January 1998, the company temporarily suspended operations at Lupin until the gold price improves significantly.

The company's financial position and operating results are directly affected by the market price of gold in relation to the company's production costs. Silver price fluctuations also affect the company's financial position and operating results, although to a lesser extent. Gold and silver prices fluctuate in response to numerous factors beyond the company's control.

The consolidated financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and, in all material respects, conform with accounting principles generally accepted in the United States (except as described in note 15) and with International Accounting Standards. The statements are expressed in U.S. dollars.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Principles of consolidation
The consolidated financial statements include the accounts of the company and its subsidiaries. Interests in joint ventures, each of which by contractual arrangement is jointly controlled by all parties having an equity interest in the joint venture, are accounted for using the proportionate consolidation method to consolidate the company's share of the joint ventures' assets, liabilities, revenues and expenses.

Share investments
Short-term common share investments are recorded at the lower of cost or market based on quoted market prices with unrealized losses included in income. Long-term common share investments are recorded at cost. A provision for loss is recorded in income if there were a decline in the market value of a long-term share investment that was other than temporary. If the company's share investment represents more than a 20% ownership interest and the company can exercise significant influence over the investee, the equity method of accounting is used. The equity method reports the investment at cost, adjusted for the company's pro rata share of the investee's undistributed earnings or losses since acquisition.

Foreign currency translation
The company's self-sustaining Canadian operations are translated into U.S. dollars using the current-rate method, which translates assets and liabilities at the year-end exchange rate and translates revenue and expenses at average exchange rates. Exchange differences arising on translation are recorded as a separate component of shareholders' equity. The change in the balance is attributable to fluctuations in the exchange rate of U.S. dollars to Canadian dollars. The company's foreign operations that are not self-sustaining are translated into U.S. dollars using the temporal method, which translates monetary assets and liabilities at the year-end exchange rate, and translates additions to non-monetary assets and liabilities, revenue and expenses at average exchange rates. Exchange differences arising on translation are recorded in current earnings.

Revenue recognition
Revenue is recognized when title to delivered gold or silver passes to the buyer.

Earnings per share
Earnings per share is calculated based on the weighted average number of common shares outstanding during the year. For per share calculations, the amount of capital securities interest that is charged directly to the deficit increases the loss attributable to common sharesholders. Fully diluted earnings per share is the same as basic earnings per share because the company's outstanding options are not dilutive.

Cash and cash equivalents
The company considers to be cash equivalents all highly liquid debt instruments purchased with a maturity of three months or less.

Inventories
Precious metals inventories are valued at the lower of cost, using the "first-in, first-out" method, or net realizable value. Materials and supplies are valued at the lower of average cost or replacement cost.

Plant and equipment
Plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over each asset's estimated economic life to a maximum of 20 years.

Mining properties – producing mines' acquisition, exploration and development costs
Mining properties are recorded at cost of acquisition. Mine exploration and development costs include expenditures incurred to develop new ore bodies, to define further mineralization in existing ore bodies and to expand the capacity of operating mines. These expenditures are amortized against earnings on the unit-of-production method over the expected economic life of each mine.

Mining properties – mining costs
Mining costs are the costs incurred at producing properties to remove ore and waste from an open pit or underground mine. These costs are deferred when they relate to gold that will be produced in future years. These deferred costs are charged to operating costs in the period in which the related production occurs.

For open pit mining operations, mining costs are deferred when the ratio of tons mined per ounce of gold recovered exceeds the average ratio estimated for the life of the mine. These deferred costs are charged to operating costs when the actual ratio is below the average ratio.

For underground mining operations, these costs include the cost of accessing and developing new production areas.

Development properties
At properties identified as having the potential to add to the company's proven and probable reserves, the direct costs of acquisition, exploration and development are capitalized as they are incurred. Determination as to reserve potential is based on results of feasibility studies which indicate whether a property is economically feasible. After drilling has confirmed the shape and continuity of mineralization, initial feasibility studies are then optimized. If production commences, these costs are transferred to "producing mines' acquisition, exploration and development costs" and amortized against earnings as described above. If a project is determined not to be commercially feasible, unrecovered costs are expensed in the year in which the determination is made.

Exploration costs
The costs of exploration programs not anticipated to result in additions to the company's reserves and other mineralization in the current year are expensed as incurred.

Reclamation and mine closure costs
Estimated site restoration and closure costs for each producing mine are charged against operating earnings on the unit-of-production method over the expected economic life of each mine.

Review of life-of-mine plans and carrying values
Plant and equipment are depreciated and mining properties are amortized over their anticipated economic lives. Each year, the company estimates ore reserves and prepares a comprehensive mining plan for the then-anticipated remaining life of each property. The prices used in estimating the company's ore reserves at December 31, 1997 were $350 per ounce of gold and $5.00 per ounce of silver ($375 per ounce of gold and $5.00 per ounce of silver at December 31, 1996). The market prices were $293 per ounce of gold and $6.13 per ounce of silver at December 31, 1997 ($369 per ounce of gold and $4.87 per ounce of silver at December 31, 1996). If the company were to determine that its reserves and future cash flows should be calculated at a significantly lower gold price than the $350 per ounce price used at December 31, 1997, there would likely be a material reduction in the amount of gold reserves. In addition, if the price realized by the company for its gold or silver bullion were to decline substantially below the price at which ore reserves were calculated for a sustained period of time, the company potentially could experience additional material write-downs of its investment in its mining properties (note 9). Under certain of such circumstances, the company might discontinue the development of a project or mining at one or more of its properties or might temporarily suspend operations at a producing property and place that property in a "care and maintenance" mode. Reserves could also be materially and adversely affected by changes in operating and capital costs and other factors, including but not limited to short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades and ore types.

Significant changes in the life-of-mine plans can occur as a result of mining experience, new ore discoveries, changes in mining methods and rates, process changes, investments in new equipment and technology, and other factors. Based on year-end ore reserves and each current life-of-mine plan, the company reviews its accounting estimates and makes needed adjustments. This complex process continues for the life of every mine.

The company reviews the carrying value of each mine by comparing the net book value with the estimated undiscounted future cash flow from the property. For purposes of this analysis, the net book value of each mine includes offsets for deferred income amounts relating to the 1997 repurchase of hedging instruments and reclamation and mine closure accruals. Precious metals price assumptions used in these analyses were $300 per ounce of gold and $5.00 per ounce of silver for 1998, and $350 per ounce of gold and $5.00 per ounce of silver in years thereafter. In 1996, carrying value analyses were performed using gold and silver price assumptions of $385 per ounce of gold and $5.25 per ounce of silver for all future years. If the net book value exceeds the undiscounted future cash flow, then the excess is expensed. The company completed a major review of the life-of-mine plans in the third quarter of 1997 and recorded a $127.0 million provision for impaired assets related to producing mines (note 9). Changes in the significant assumptions underlying future cash flow estimates, including assumptions regarding precious metals prices, may have a material effect on future carrying values and operating results.

Once major permits have been approved for a development property but a final construction decision has not yet been made, the company considers the uncertainty that the economics of the project may materially change if permits expire before a final construction decision is made, and records reductions in the property's book value when appropriate. Permits may not be renewable under the same terms and conditions as originally granted, and the grant of permits is often subject to appeal.

Capitalization of interest
Interest cost is capitalized on construction programs until the facilities are ready for their intended use.

Hedging activities

The company's profitability is subject to changes in gold and silver prices, exchange rates, interest rates and certain commodity prices. To reduce the impact of such changes, the company locks in the future value of certain of these items through hedging transactions. These transactions are accomplished through the use of derivative financial instruments, the value of which is derived from movements in the underlying prices or rates.

The gold- and silver-related instruments used in these transactions include commodity loans, fixed and floating forward contracts, spot-deferred contracts, swaps and options. Sensitivity to changing metal prices is reduced, and future revenues are hedged, as the company's future production will satisfy these loans and other delivery commitments. The company engages in forward currency-exchange contracts to reduce the impact on the Lupin mine's operating costs caused by fluctuations in the exchange rate of U.S. dollars to Canadian dollars. The company also engages in crude oil hedging activities, including forward purchase agreements and swaps, to reduce the impact of fluctuations in crude oil prices on its operating costs. In 1997, the company swapped a portion of its capital security interest obligation for a gold delivery commitment, effectively reducing its interest obligation. During 1995, the company used interest rate swap agreements to effectively convert its fixed-rate preferred stock dividends into floating-rate dividends.

Gains and losses resulting from hedging activities are recognized in earnings on a basis consistent with the hedged item. When hedged production is sold, revenue is recognized in amounts implicit in the commodity loan, delivery commitment or option agreement. Gains or losses on foreign currency and crude oil hedging activities are recorded in operating costs, or capitalized in the cost of assets, when the hedged Canadian dollar transactions occur and when crude oil supplies are used in operations. Gains and losses on early termination of hedging contracts are deferred until the hedged items are recognized in earnings.

The carrying values of gold loans are remeasured using the market value of gold at the reporting date. Differences between these values and the loan proceeds that were originally received are recorded as deferred income and will be included in revenue when the production related to the loans is sold.

Under the original gold swap agreement related to the capital securities, in March 2002 the company would have delivered 291,358 ounces of gold and would have received $100.0 million. Semiannually through March 2002, the company would have paid the bank's floating gold lease rate and received fixed-rate interest. The net swap income was recognized as an adjustment to interest on the capital securities. In the first quarter of 1998, the company restructured the gold swap agreement converting the swap ounces to forward sales commitments (note 18).

Under the interest rate swap agreements related to the preferred stock dividends, the company received fixed-rate interest and paid interest based on the London Inter-Bank Offered Rate (LIBOR). The interest rate differential was recognized as an adjustment to dividends on preferred stock of subsidiary as the differential accrued.

2. Investments and Other Assets

Historically, the company has purchased common shares of exploration-oriented companies to provide the company access to exploration and development prospects around the world. During 1997, the company reclassified these share investments from long-term to short-term investments, in light of the company's intent to dispose of these assets. The investments are carried at the lower of cost or market, based on quoted market prices.

At December 31, 1997, the company's short-term investment portfolio was comprised of the following share investments.

	1997				
	Number of Shares	Percent Interest	Original Cost	Market Value	**Carrying Value**
TVI Pacific Inc.	14,016,845	15.4%	$12.1	$ 0.9	**$ 0.9**
Minefinders Corporation Ltd.	3,500,000	25.0	8.2	5.0	**5.0**
Canarc Resource Corp.	3,000,000	8.6	4.9	1.4	**1.4**
Rift Resources Ltd.	1,000,000	9.8	1.4	0.2	**0.2**
Fairmile Gold Corp.	825,000	4.2	1.2	0.1	**0.1**
Ashanti Goldfields Company Ltd.	302,222	0.3	4.4	2.6	**2.6**
Mar-West Resources Ltd.	125,000	0.8	0.2	0.1	**0.1**
			$32.3	$10.3	**$10.3**

Long-term investments and other assets were as follows.

	1997	1996			
	Carrying Value	Number of Shares	Percent Interest	Market Value	Carrying Value
Share investments at cost:					
TVI Pacific Inc.	**$ —**	14,016,845	15.4%	$12.8	$11.8
Canarc Resource Corp.	**—**	3,000,000	9.0	3.7	4.2
Minefinders Corporation Ltd.	**—**	1,280,000	15.0	2.8	2.0
Rift Resources Ltd.	**—**	1,000,000	9.8	1.1	1.5
Other share investments	**—**			13.9	9.9
	—			$34.3	29.4
Property options	**—**				1.8
Other assets	**6.6**				8.5
	$6.6				$39.7

3. Inventories

	1997	1996
Precious metals — bullion	**$14.9**	$ 4.2
— in-process	**9.8**	11.4
Materials and supplies	**16.5**	18.3
	$41.2	$33.9

4. Property, Plant and Equipment

Net book value

Property and Percentage Owned	Plant and Equipment	Mining Properties	1997 Net Book Value	1996 Net Book Value
McCoy/Cove (100%)	$ 59.7	$ 34.3	**$ 94.0**	$173.9
Round Mountain (50%)	76.3	48.3	**124.6**	108.0
Lupin (including Ulu) (100%)	40.4	—	**40.4**	115.2
Kettle River (100%)	15.9	0.4	**16.3**	39.3
Aquarius (100%)	38.6	14.2	**52.8**	14.9
Paredones Amarillos (60%)	0.4	10.6	**11.0**	5.2
Santa Elina (51% in 1996) (note 5)	—	—	—	131.1
Kingking (75% in 1996)	—	—	—	42.6
Other	7.6	—	**7.6**	8.8
	$238.9	$107.8	**$346.7**	$639.0

Plant and equipment

	1997 Cost	1997 Net Book Value	1996 Cost	1996 Net Book Value
Land improvements and utility systems	$ 63.2	**$ 16.0**	$ 65.1	$ 24.0
Buildings	162.2	**51.7**	161.8	57.4
Equipment	393.5	**118.1**	392.1	135.8
Construction in progress	53.1	**53.1**	16.8	16.8
	$672.0	**$238.9**	$635.8	$234.0

Mining properties

	1997	1996
Producing mines' acquisition, exploration and development costs	**$266.1**	$388.5
Less accumulated amortization	**198.9**	250.6
	67.2	137.9
Development properties' acquisition, exploration and development costs	**24.8**	188.1
Deferred mining costs	**15.8**	79.0
	$107.8	$405.0

During 1997, the company wrote down the carrying values of a number of its operating and development properties (note 9).

5. Santa Elina Acquisition

In July 1996, the company completed a series of transactions with Santa Elina Gold Corporation ("Santa Elina") and Sercor Ltd. ("Sercor," a private company that owned 67% of Santa Elina) that increased the company's ownership of the outstanding common shares of Santa Elina from 7% to 50% by issuing 8,830,915 common shares to the shareholders of Santa Elina. Following the transaction, the company and Sercor each owned 50% of Santa Elina. Santa Elina holds interests in mining properties, principally in Brazil and also in Bolivia.

The company accounted for the transactions as the purchase of an additional 43% of Santa Elina. The total cost of the transactions was $106.0 million. The purchase price was allocated to the net assets of Santa Elina based on the relative fair values, with the majority allocated to mining properties. Santa Elina has been accounted for using the proportionate consolidation method, as the company and Sercor jointly control Santa Elina.

The company subsequently increased its ownership in Santa Elina to 58% through additional share purchases of $7.0 million ($6.0 million in the fourth quarter of 1996 and $1.0 million in the first quarter of 1997) and through shares acquired when the joint venture partner exercised its right to repay outstanding loans from the company maturing in September 1997 by transferring shares in Santa Elina pledged as collateral ($13.5 million in the third quarter of 1997). The increased ownership does not affect the joint control of Santa Elina.

Summarized below are the unaudited pro forma operating results of the company, assuming the Santa Elina purchase had been consummated on January 1, 1995. These pro forma results are based upon historical results of operations and are not necessarily indicative of results that would have occurred.

	1996	1995
Revenue	$ 337.3	$360.7
Net loss	$(180.0)	$ (58.8)
Net loss per common share	$ (1.29)	$ (0.47)

During 1997, the company recorded $143.6 million in provisions for impaired assets related to Santa Elina that effectively eliminated the carrying value of its investment (note 9). Santa Elina currently does not have sufficient cash or other sources of liquidity to continue its operations. Sercor and the company have not committed to invest any additional funds in Santa Elina. As a result, it is uncertain whether Santa Elina will be able to continue to develop its assets or to continue in business.

6. Gold and Other Financings and Deferred Income

	Financings 1997	Financings 1996	Deferred Income 1997	Deferred Income 1996
Gold swap	**$ —**	$ 83.8	**$ —**	$ —
Gold loans	**18.6**	33.7	**6.5**	2.4
Currency loan	**43.7**	33.8	—	—
Capital securities (note 7)	**4.2**	—	—	—
Debenture payable	—	28.0	—	—
Repurchase of gold and silver forward contracts and gold swap (note 18)	—	—	**49.0**	—
Repurchase of forward currency exchange contracts (note 18)	—	—	**6.0**	—
Other	—	3.6	**0.7**	0.1
	66.5	182.9	**62.2**	2.5
Less current portion	**14.8**	129.4	**7.5**	0.9
	$51.7	$ 53.5	**$54.7**	$1.6

In the first and second quarters of 1997, the company repaid an $84.0 million bond obligation and a $28.0 million debenture payable with the proceeds received on the issuance of $100.0 million of 11% capital securities (note 7) and the $69.1 million in proceeds received on the repurchase of the company's gold and silver forward sales, gold swap and forward currency exchange contracts (note 18).

Gold swap
A gold swap refers to a currency loan and a related, independently arranged, future gold delivery commitment. Taken together, the loan and commitment create an obligation effectively denominated in gold and representing a hedge of future gold production. In 1990, bonds totaling $84.0 million were swapped for an obligation to deliver 218,000 ounces of gold in September 1997, equivalent to a selling price of $385 per ounce. In the first quarter of 1997, the company repurchased its 218,000-ounce gold delivery commitment that hedged the $84.0 million bond obligation (note 18) and repaid the $84.0 million bond obligation.

Gold term loan and currency loan
At December 31, 1997, a 36,094-ounce term loan was outstanding under a gold loan agreement (41,562 ounces at December 31, 1996) that will be repaid in quarterly installments through the second quarter of 2001. The commitment is priced at $388 per ounce. For financial statement presentation the gold loan was remeasured to $293 per ounce, the gold price at December 31, 1997 ($369 per ounce in 1996). Unrealized remeasurement gains or losses are included in deferred income. The company also has outstanding a $28.6 million currency borrowing under the agreement that will be repaid in quarterly installments through the second quarter of 2001.

The facility is convertible between gold and dollar borrowings. Interest on gold borrowings is calculated at the banks' gold rate plus 0.475%, and interest on dollar borrowings at LIBOR plus 0.475%. At December 31, 1997, the effective interest rates were 2.99% on the gold term loan and 6.69% on the currency term loan.

The gold loan agreement contains both term and revolving provisions. At December 31, 1997, the company had $15.0 million outstanding, and up to $85.0 million or gold equivalent, subject to covenant limitations, available until 2001, under the revolving commitment. At December 31, 1997, the effective interest rate on the revolving loan was 6.64%.

Gold loan
At December 31, 1997, a 27,623-ounce gold loan (49,723 ounces at December 31, 1996) was outstanding, which the company will repay in quarterly payments of 5,525 ounces through the first quarter of 1999. The gold loan is priced at $403 per ounce. For financial statement presentation the gold loan was remeasured to $293 per ounce, the gold price at December 31, 1997 ($369 per ounce in 1996). Unrealized remeasurement gains or losses are included in deferred income. The effective rate of interest on the gold loan was 2.00% at December 31, 1997.

Debenture payable
In 1995, a subsidiary of the company issued a debenture in the amount of $28.0 million, secured by a letter of credit and bearing interest at the one-month discount rate for bankers' acceptances plus 0.325%. The debenture was repaid in March 1997.

Other information
Certain of the company's financing arrangements require it to maintain specified ratios of assets to liabilities and cash flow to debt. The company is in compliance with these ratios and other covenant requirements. To remain in compliance throughout 1998, the company has taken certain actions to reduce expenses, such as a temporary suspension of operations at Lupin and operational changes at McCoy/Cove, the reduction of support personnel, and reductions in budgeted new project and exploration expenditures. The company may be required to seek additional external financing and to further reduce discretionary spending, absent a substantial improvement in gold prices.

At December 31, 1997, the company had $85.0 million in unutilized credit facilities, of which $29.5 million was actually available for borrowing in view of the covenant limitations imposed by the credit facilities. The amounts available for borrowing under the credit facilities vary with precious metals prices, among other factors, and continuation of gold prices at depressed levels could have the effect of reducing or eliminating the company's capacity to borrow under the credit facilities. The company and its lenders are in negotiations aimed at restructuring the terms of its credit facilities to provide more liquidity than is currently available in the event of a continued period of depressed gold prices. Annual commitment fees on the unutilized credit facilities are 0.35%.

The company had letter of credit facilities of $55.0 million, of which $32.1 million was outstanding at December 31, 1997, primarily related to the bonding of future reclamation obligations. Annual fees on the letters of credit range from 0.50% to 0.75%.

Interest payments were $9.4 million in 1997, $9.0 million in 1996 and $4.3 million in 1995.

Future gold and silver delivery commitments are summarized by year in note 18.

7. Capital Securities
On March 27, 1997, the company issued $100.0 million of 11% capital securities due in April 2027. In 1997, the company swapped a portion of its capital security interest obligation for a gold delivery commitment. Under the agreement, in 2002 the company would have delivered 291,358 ounces of gold and would have received $100.0 million, a price of $343 per ounce of gold. Additionally, the agreement reduced the company's effective interest rate on the capital securities to a fixed rate of 4.24% plus the floating gold lease rate, or 6.03% in 1997. In the first quarter of 1998, the company restructured the gold swap agreement. The restructuring resulted in a conversion of the swap ounces into forward sales commitments (note 18).

The company has the right to defer interest payments on the capital securities for a period not to exceed 10 consecutive semiannual periods. During a period of interest deferral, interest would accrue at a rate of 12% per annum, compounded semiannually. The company, at its option, may satisfy its deferred interest obligation by delivering common shares to the trustee. The trustee would sell the company's shares and remit the proceeds to the holders of the securities in payment of the deferred interest obligation.

In March 1998, the company exercised its right to temporarily defer its April 1998 interest payment to holders of the capital securities until gold prices improve. During the deferral period, interest will accrue at a rate of 12% per annum, compounded semiannually.

The present value of the capital securities' principal amount, $4.2 million, has been classified as debt within gold and other financings (note 6). The present value of the future interest payments, $95.8 million, has been classified as a separate component of shareholders' equity, as the company has the unrestricted ability to settle the future interest payments by issuing its own common shares to the trustee for sale. Issue costs of $3.3 million have been allocated proportionately to reflect the debt and equity classifications at issuance as follows: $0.1 million to deferred financing charges and $3.2 million to shareholders' equity. Interest on the debt portion of the capital securities has been classified as interest expense on the consolidated statement of earnings, and interest on the equity portion of the capital securities has been charged directly to deficit on the consolidated balance sheet. For purposes of per share calculations, the equity portion increases the loss attributable to common shareholders. See note 15 for a discussion of differences in treatment of the capital securities under generally accepted accounting principles in the United States.

8. Other Long-Term Obligations

	1997	1996
Accrued reclamation and mine closure	**$41.0**	$33.3
Provision for Alaska-Juneau development property reclamation and closure costs	**2.5**	20.0
Provision for McCoy/Cove pit wall stabilization	**24.4**	28.4
Other	**7.1**	5.4
	75.0	87.1
Less current portion included in accounts payable and accrued liabilities	**18.4**	17.1
	$56.6	$70.0

Reclamation and mine closure

At December 31, 1997, the company's future reclamation and mine closure costs are estimated to be $77.9 million, excluding Alaska-Juneau described below. The aggregate obligation accrued to December 31, 1997 was $41.0 million, including accruals of $8.8 million in 1997, $6.3 million in 1996, and $17.9 million in 1995. The remaining $36.9 million will be accrued on the unit-of-production method over the remaining life of each mine. Future reclamation costs are determined using management's best estimates of the scope of work to be performed and related costs. These estimates may change based on future changes in operations, cost of reclamation activities and regulatory requirements.

At December 31, 1996, the company recorded a provision of $77.1 million relating to the Alaska-Juneau development property, including its $57.1 million investment and $20.0 million for estimated reclamation and closure costs. The provision resulted from a new feasibility study concluding that the project as currently designed would not be economically feasible. In July 1997, the company entered into an agreement that transferred certain responsibilities for the Alaska-Juneau project closure to a third party environmental firm. The third party's performance under the contract is supported by a corporate guarantee and surety bonds. By December 31, 1997, total spending for Alaska-Juneau's reclamation and closure was $17.5 million.

Provision for McCoy/Cove pit wall stabilization

In the third quarter of 1996, the company recorded a $30.0 million provision related to the estimated costs to remove waste rock from an unstable portion of the Cove pit wall at the McCoy/Cove mine in Nevada. Remediation work that would permit mining in the affected portion of the Cove pit began in 1997. At December 31, 1997, total spending for the pit wall stabilization was $5.6 million.

9. Provision for Impaired Assets and Other Charges

	1997	1996	1995
Provision for impaired assets	**$346.0**	$ —	$ —
Severance expense	**16.7**	—	—
Provision for Alaska-Juneau development property (note 8)	—	77.1	—
Provision for McCoy/Cove pit wall stabilization (note 8)	—	30.0	—
	$362.7	$107.1	$ —

Provision for impaired assets

In 1997, the company completed a major review of the life-of-mine plans for its four producing mines and performed an evaluation of the company's portfolio of development projects, exploration properties and other assets. In light of both short-term and long-term views of precious metals prices and the results of recently completed feasibility and engineering studies, the company assessed the recoverability of the carrying values of these assets. For operating mines and development properties, the need for and amounts of the write-downs were established by comparing carrying values to estimated future net cash flows from each property. For purposes of estimating future cash flows, price assumptions of $350 per ounce of gold were used except for 1998, for which a price of $300 per ounce of gold was used. For other assets, carrying values were compared to estimated net realizable values based on market comparables and, with respect to share investments, quoted market values. As a result, the company recorded a $346.0 million provision for impaired assets in 1997.

	Deferred Mining	Acquisition and Development Costs	Plant and Equipment	Other Assets (Net)	Legal and Closure Costs	Total
Operating properties:						
McCoy/Cove	$47.0	$ —	$ —	$ —	$—	$ 47.0
Lupin	17.2	43.4	4.4	—	—	65.0
Kettle River	—	11.2	3.8	—	—	15.0
	64.2	54.6	8.2	—	—	127.0
Other properties:						
Kingking	—	46.2	0.3	3.5	—	50.0
Santa Elina	—	138.9	5.8	(1.1)	—	143.6
	—	185.1	6.1	2.4	—	193.6
Share investments	—	—	—	15.6	—	15.6
Other	—	—	—	2.1	7.7	9.8
	$64.2	$239.7	$14.3	$20.1	$7.7	$346.0

The company's option interest in the Kingking project required the delivery of a bankable feasibility study by October 25, 1997, or the remittance of option delay payments of $750,000 per month for the first six months and $1.0 million per month for the subsequent six months. The company elected not to exercise its option interest in Kingking. Following the $50.0 million write-down recorded in the third quarter of 1997, the carrying value of the Kingking project is nil.

The company's investment in Santa Elina consisted primarily of a copper/gold project, a number of small gold exploration properties, a significant land position and a hydro-power project in the feasibility stage. In the third and fourth quarters of 1997, the company recorded write-downs of its Santa Elina investment totaling $143.6 million, reducing the carrying value to nil.

The provision for impaired assets is based in part on certain management assumptions regarding the future market price of gold. If the market price were to decline significantly below that experienced in 1997 and remain depressed, it is possible that additional provisions for impairment would be required and that operations at some of the company's producing mines may be curtailed or suspended. In January 1998, the company temporarily suspended operations at the Lupin mine until the gold price improves significantly.

In connection with the review of asset values, the company reclassified certain of its share investments in exploration-oriented companies from long-term to short-term investments, in light of the company's intent to dispose of the assets (note 2). Correspondingly, the investments were adjusted to, and continue to be carried at, the lower of cost or market based on quoted market prices.

Severance expense
During 1997, in response to reduced activity resulting from the downturn in gold prices, the company reduced the number of executives and support personnel by approximately 75%. Additionally, the company temporarily suspended operations at the Lupin mine and reduced operations at the McCoy/Cove mine until a significant recovery in the gold price occurs. As a result, the company reduced the number of Lupin employees by approximately 90% and the number of McCoy/Cove employees by approximately 20%. In 1997, the company recognized $16.7 million in severance expense related to these actions.

10. Interest and Other

	1997	1996	1995
Interest income	**$(2.5)**	$(6.1)	$(9.9)
Interest expense	**5.7**	8.2	5.1
Interest capitalized	**(0.5)**	—	—
Unrealized loss on share investments (note 2)	**6.6**	—	—
Gain on sale of option interest in Dolores project	**(3.9)**	—	—
Gain on sale of Etruscan investment	**(0.8)**	(1.9)	—
Loss on sale of Pioneer Group investment	**0.3**	—	—
Summa litigation accrual	**0.6**	1.5	—
Gain on sale of Cluff Resources investment	**—**	(2.5)	—
Gain on sale of Kensington project	—	—	(3.2)
Gain on sale of Muscocho shares	—	—	(2.1)
Environmental expenses at non-producing properties	—	—	12.9
Other	**(0.3)**	3.9	1.4
	$ 5.2	$ 3.1	$ 4.2

Gain on sale of option interest in Dolores project
In 1996, the company established a strategic alliance and joint venture with Minefinders Corporation Ltd., an exploration company that holds the Dolores project, located in the State of Chihuahua, Mexico. In the third quarter of 1997, the company sold back its right to buy a future 60% interest in the Dolores project to Minefinders in exchange for C$4.0 million in cash and 1.25 million common shares of Minefinders. The transaction increased the company's ownership of Minefinders to 25% of the common shares outstanding and resulted in the company being repaid for all of its direct exploration expenses at Dolores. The company recognized a gain of $3.9 million on the transaction.

Gain on sale of Etruscan investment
In 1996, the company sold its investment in Etruscan Enterprises Ltd. in exchange for $8.3 million cash and the 49% of the Kilgore exploration property in Idaho that it did not own. The company recognized a gain of $1.9 million on the sale. Additionally, in the second quarter of 1997, the company obtained 906,043 common shares in Etruscan at C$3.45 per share through the exercise of warrants. The company subsequently sold the shares, recognizing a gain of $0.8 million.

Loss on sale of Pioneer Group investment
In the third quarter of 1997, the company sold its investment in Pioneer Group Inc. for $4.2 million. A loss of $0.3 million was recognized on the sale.

Summa litigation accrual
In 1996, the company recorded a $1.5 million accrual related to the 1995 lawsuit filed by Summa Corporation against the company and the predecessor owner of the McCoy/Cove and Manhattan mines related to alleged improper deductions in calculation of royalties for the mines. The court ruled in April 1997 that the company had not breached the royalty agreement with Summa. The results are being appealed by Summa to the Nevada Supreme Court.

Gain on sale of Cluff Resources investment
In 1996, the company sold its investment in Cluff Resources plc for $5.5 million. A gain of $2.5 million was recorded on the sale.

Gain on sale of Kensington project
In 1995, the company completed the sale of its 50% interest in the Kensington development project to its partner, Coeur d'Alene Mines Corp., for $32.5 million and a scaled royalty on future production. A gain of $3.2 million was recorded on the sale.

Gain on sale of Muscocho shares
In 1995, the company sold its 11,585,110 common shares of Muscocho Explorations Ltd., representing 24.8% of Muscocho's issued and outstanding capital, in a private transaction for $2.1 million. A gain of $2.1 million was recorded on the sale, as the company had written off its investment in Muscocho in 1990.

Environmental expenses
During 1995, the company increased its provision for future reclamation costs at non-producing properties by $12.9 million, including $11.7 million related to the Sunnyside mine in Colorado.

11. Income Tax Expense

Geographic components
The geographic components of earnings before income tax expense and of income tax expense were as follows.

	1997	1996	1995
Loss before income taxes:			
Canada	**$(131.3)**	$ (32.8)	$(41.4)
United States and other	**(287.4)**	(143.3)	(3.4)
	$(418.7)	$(176.1)	$(44.8)
Current income tax expense (recovery):			
Canada	**$0.5**	$0.4	$(3.9)
United States and other	**1.6**	(0.1)	1.1
	2.1	0.3	(2.8)
Deferred income tax expense (recovery):			
Canada	**—**	0.2	(0.9)
United States and other	**(0.3)**	0.1	0.5
	(0.3)	0.3	(0.4)
Income tax expense (recovery)	**$1.8**	$0.6	$(3.2)

Deferred income taxes
The payment of certain income taxes is deferred due to the recognition of amounts for tax purposes in different periods than for accounting purposes. There are no material timing differences, either individually or in aggregate, for any of the years presented.

Effective tax rate
The effective tax rate on the company's earnings differed from the combined Canadian federal and provincial corporate income tax rate of 43.2% for the following reasons.

	1997	1996	1995
Loss before income taxes	**$(418.7)**	$(176.1)	$(44.8)
Income tax effect of:			
Expected Canadian federal and provincial corporate income taxes	**$(180.9)**	$(76.1)	$(19.3)
Operating loss from which no tax benefit is derived	**161.4**	64.7	14.8
Canadian resource allowance and earned depletion	**(2.1)**	(0.4)	(1.5)
Foreign losses subject to different income tax rates	**24.0**	11.8	1.8
Other items	**(0.6)**	0.6	1.0
Income tax expense (recovery)	**$ 1.8**	$ 0.6	$ (3.2)
Effective tax rate (current and deferred)	**(0.4%)**	(0.4%)	7.2%

Loss carryforwards
At December 31, 1997, the company had U.S. net operating loss carryforwards of approximately $365 million to apply against future taxable income and $162 million to apply against future alternative minimum taxable income. These loss carryforwards do not include the provision for impaired assets (note 9) or the provision for the McCoy/Cove pit wall stabilization costs (note 8), which have not yet been recognized for income tax purposes. The net operating loss carryforwards expire at various times from 2001 to 2012. Additionally, the company has Canadian non-capital loss carryforwards of approximately $19 million and net capital loss carryforwards of approximately $9 million. The non-capital loss carryforwards expire in 2003. The net capital loss carryforwards have no expiration date.

In 1995, the company realized $4.8 million from the conveyance of Canadian Development Expenses of $32.8 million to a third party. The proceeds were recorded as a recovery of income taxes in 1995 because the expenses represented unrecorded loss carryforwards for accounting purposes. The

arrangement included the issuance of debentures to the third party (note 6).

Income tax payments (recoveries)
Income tax payments (recoveries) were \$0.2 million in 1997, \$0.4 million in 1996 and (\$3.6) million in 1995.

12. Preferred Shares
The company is authorized to issue an unlimited number of preferred shares, issuable in series. Each series is to consist of such number of shares and to have such designation, rights, privileges, restrictions and conditions as may be determined by the directors. No preferred shares are currently issued.

13. Common Shares
Changes in the number of common shares outstanding during the three years ended December 31, 1997 were as follows.

	Number of Shares	Amount
Balance, December 31, 1994	112,681,803	\$483.1
1995: Exercise of share options	282,306	1.5
Conversion of preferred shares of subsidiary	16,916,695	134.4
Balance, December 31, 1995	129,880,804	619.0
1996: Exercise of share options	644,062	4.7
Shares issued on acquisition of Santa Elina, net of issuance costs of \$0.3 million (note 5)	8,830,915	85.8
Balance, December 31, 1996	139,355,781	709.5
1997: Exercise of share options	14,250	0.1
Balance, December 31, 1997	139,370,031	\$709.6

The company suspended the payment of dividends beginning in 1997. The company paid dividends totaling \$0.075 per share in 1996 and 1995. Historically, dividends payable to Canadian residents were converted to and paid in Canadian dollars. The company is prohibited from paying common share dividends during a period of interest deferral related to the capital securities (note 7).

Shareholder rights plan
Under the company's shareholder rights plan, if any person or group were to announce an intention to acquire, or were to acquire, 20% or more of the company's common shares without complying with the conditions of a "permitted bid," then the owners of each share of common stock (other than the acquiring person or group) would become entitled to exercise a right to buy one additional common share at 50% of the lowest share price on The Toronto Stock Exchange during the prior 90 days. The plan expires in 2004, subject to reconfirmation by shareholders in 1999.

A "permitted bid," which does not trigger the entitlement to acquire shares under the plan, is one that complies with applicable securities law in all jurisdictions where at least 5% of the company's common shares are owned; is made to all shareholders for all outstanding shares; is open for a minimum of 60 days; takes up no shares until at least 66 2/3% of the outstanding shares have been tendered to the bid, including those owned by the acquiring person or group; and meets certain other conditions.

Restricted share grant plan
Effective February 1997, the company adopted a restricted share grant plan to provide incentive to officers of the company. An aggregate of 750,000 common shares of the company have been reserved for issuance under the plan. There are no grants currently outstanding.

Employee Share Incentive Plan and Director Equity Plan
These plans provide for the granting of options to officers, key employees, and eligible directors to purchase common shares. Outstanding share options under the plans are exercisable at prices equal to the market value on the date of grant. The option holder may exercise each share option over a period of 10 years from the date of grant. Options generally vest in 25% increments on the first, second, third and fourth year anniversaries following the grant date. Options granted in 1997 vest at 50% on the first anniversary and 25% on the second and third anniversaries. Option prices are denominated in Canadian dollars.

Changes in the number of options outstanding during the three years ended December 31, 1997 were as follows.

	Employee Share Incentive Plan		Director Equity Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, December 31, 1994	3,744,623	C\$12.29	55,200	C\$14.63
1995: Options granted	989,400	13.33	65,000	12.50
Options exercised	(317,755)	8.16	—	—
Options forfeited	(113,576)	13.06	—	—
Options outstanding, December 31, 1995	4,302,692	C\$12.81	120,200	C\$13.48
1996: Options granted	1,065,130	12.26	40,000	18.25
Options exercised	(694,758)	10.86	(2,300)	14.63
Options expired	(90,150)	14.88	—	—
Options forfeited	(244,247)	14.42	—	—
Options outstanding, December 31, 1996	4,338,667	C\$12.85	157,900	C\$14.67
1997: Options granted	1,414,060	8.00	52,000	8.00
Options exercised	(14,250)	5.75	—	—
Options expired	(13,760)	9.75	—	—
Options forfeited	(732,598)	12.25	(14,950)	14.91
Options outstanding, December 31, 1997	4,992,119	C\$11.60	194,950	C\$12.87

The number of shares reserved for future grants at December 31, 1997 are 9,612,502 under the Employee Share Incentive Plan and 422,700 under the Director Equity Plan. The number and weighted average price of shares exercisable under the Employee Share Incentive Plan are 2,746,121 at C$12.78 at December 31, 1997; 2,282,905 at C$12.70 at December 31, 1996; and 2,502,927 at C$11.82 at December 31, 1995. The number and weighted average price of shares exercisable under the Director Equity Plan are 74,800 at C$14.22 at December 31, 1997; 41,550 at C$13.79 at December 31, 1996; and 13,800 at C$14.63 at December 31, 1995.

Options outstanding at December 31, 1997 had the following characteristics.

	Number of Shares Outstanding	Exercise Price Range	Weighted Average Exercise Price of Shares Outstanding	Weighted Average Years Until Expiration	Number of Shares Exercisable	Weighted Average Exercise Price of Shares Exercisable
Employee Share Incentive Plan	1,455,112	C$5.75 – C$8.13	C$7.69	9	227,924	C$6.00
	598,132	8.88 – 9.75	9.16	3	598,132	9.16
	1,740,141	10.70 – 13.38	12.25	7	906,598	12.67
	1,152,346	15.75 – 18.88	16.49	7	989,689	16.45
	46,388	19.13 – 21.50	19.73	6	23,778	19.83
Director Equity Plan	194,950	C$8.00 – C$18.25	C$12.87	8	74,800	C$14.22

14. Preferred Stock of a Subsidiary

In July 1992, the company received net proceeds of $136.3 million from the sale of 5.75 million shares of Series A cumulative preferred stock of a financing subsidiary, Echo Bay Finance Corp. Quarterly dividends were paid on the preferred shares totaling $1.75 per share annually. On July 31, 1995, the preferred stock became redeemable, in whole or in part, at the option of the subsidiary.

In three separate calls for redemption during 1995, the entire issue of preferred shares was converted into common shares of the company at 2.985 common shares for each $25 preferred share or redeemed for cash at $26.225 per preferred share plus accrued dividends. During 1995, 5,667,437 preferred shares were converted into 16,916,695 of the company's common shares, and 82,313 preferred shares were redeemed for cash of $2.2 million.

15. Differences Between Canadian and U.S. Generally Accepted Accounting Principles (GAAP)

U.S. GAAP financial statements

The company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. These differ in some respects from those in the United States as described below.

In accordance with Canadian GAAP, certain long-term foreign exchange contracts are considered to be hedges of the cost of goods to be purchased in foreign currencies in future periods. Gains and losses related to changes in market values of such 3H contracts are recognized as a component of the cost of goods when the related hedged purchases occur. Under U.S. GAAP, changes in market value would be included in current earnings, and the deficit would be $1.9 million lower at December 31, 1997.

In accordance with Canadian GAAP, the present value of the principal amount of the capital securities issued in March 1997 is classified as debt within gold and other financings, while the present value of the future interest payments is classified as a separate component of shareholders' equity. The related issuance costs have been allocated proportionately to deferred financing charges and retained earnings based on the debt and equity classifications. Interest on the capital securities has been allocated proportionately to interest expense and deficit based on the debt and equity classifications. Under U.S. GAAP, the face value of the securities would be classified entirely as debt within gold and other financings; the related issuance costs would be classified as deferred financing charges within long-term investments and other assets and would be amortized to interest expense over the life of the securities; and the interest on the capital securities would be classified entirely as interest expense. Under U.S. GAAP, gold and other financings would be $95.8 million higher; there would be no capital securities component of shareholders' equity; long-term investments and other assets would be $2.7 million higher; and the deficit would be $2.7 million lower at December 31, 1997.

In accordance with Canadian GAAP, in 1996 certain share investments were carried at cost as long-term investments (note 2). These investments would have been written down and a loss recognized in earnings only if there were a loss in value that was other than temporary. Under U.S. GAAP, these investments would have been marked to market, with unrealized gains or losses excluded from earnings and reported as a separate component of common shareholders' equity, net of tax. The unrealized gain on share investments was $5.0 million after a nil tax effect as of December 31, 1996.

In accordance with Canadian GAAP, in 1997 the company's portfolio of share investments was reclassified from long-term investments to short-term investments in light of the company's intent to dispose of these assets (note 2). In accordance with Canadian GAAP, the investments are carried at the lower

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of cost or market based on quoted market prices. Under U.S. GAAP, the company would have deemed the decline in fair values of its investments as of September 30, 1997 as other than temporary (note 9). Accordingly, the investments would have been marked down to market, with the unrealized losses included in earnings. Subsequently, at December 31, 1997, these investments would have been marked to market, with unrealized gains or losses excluded from earnings and reported as a separate component of common shareholders' equity, net of tax. The unrealized loss on share investments was $6.6 million after a nil tax effect as of December 31, 1997.

The company previously disclosed a difference of $36.4 million between Canadian and U.S. GAAP regarding the cost of the July 1996 Santa Elina acquisition, which under U.S. GAAP would have increased mining properties and common shares by $36.4 million. Additionally, the company disclosed a difference between Canadian and U.S. GAAP regarding Santa Elina resulting from differences between the allocated values and the tax bases of assets acquired and liabilities assumed. Under U.S. GAAP, this would result in an increased allocation to mining properties of $46.6 million and a corresponding deferred income tax liability related to the tax effect of the future amortization resulting from the increased basis. The valuation difference of $36.4 million and the deferred tax difference of $46.6 million have been eliminated following the write-off of the Santa Elina assets in 1997 (note 9). Due to the increased basis in Santa Elina under U.S. GAAP, the 1997 write-off under U.S. GAAP would exceed the write-off of $143.6 million recognized under Canadian GAAP by $36.4 million, comprised of the original valuation difference ($36.4 million) and the deferred tax difference ($46.6 million), offset by the recognition of a deferred tax benefit ($46.6 million). As a result, under U.S. GAAP, the deficit would be $36.4 million higher at December 31, 1997.

In accordance with Canadian GAAP, the company's mining properties are amortized over proven and probable reserves and other mineralization. Under U.S. GAAP, only proven and probable reserves would be used as the basis for amortization. On a cumulative basis under U.S. GAAP, mining properties and common shareholders' equity would be $11.5 million lower and deficit would be $11.5 million higher at December 31, 1997 ($10.6 million lower and $10.6 million higher respectively at December 31, 1996).

In accordance with Canadian GAAP, the severance costs associated with the temporary suspension of operations at Lupin were recognized on the commitment date (generally defined as the date the severance plan is established and approved by management) which occurred in 1997. Conditions for recognizing involuntary termination benefits under U.S. GAAP include similar criteria as Canadian GAAP. Additionally, however, the benefit arrangement must also be communicated to employees. As the Lupin severance activities were not communicated to employees prior to December 31, 1997, under U.S. GAAP the related costs would be recognized in 1998. Under U.S. GAAP, accrued liabilities and the deficit would be $5.0 million lower, and common shareholders' equity would be $5.0 million higher, at December 31, 1997.

In accordance with Canadian GAAP, in 1996 and 1995 the company accounted for its investment in the Kingking project using a proportionate consolidation method. Under U.S. GAAP, the investment would have been accounted for under a full consolidation, with an offsetting minority interest. No material difference existed between the two methodologies in 1996 and 1995.

The effects on the consolidated statement of earnings of the above differences would have been as follows.

	1997	1996	1995
Net loss under Canadian GAAP	**$(420.5)**	$(176.7)	$(50.1)
Write-off of Santa Elina properties, net of income tax benefit of $46.6 million (note 9)	27 ~~12~~ **(36.4)**	—	—
Change in market value of foreign exchange contracts	1 **(8.1)**	2.2	3.6
Amortization of mining properties	29 **(1.0)**	0.8	1.9
Unrealized loss on share investments (note 2)	19 **6.6**	—	—
Recognition of severance expense	15 **5.0**	—	—
Additional interest expense on capital securities	45 **(5.7)**	—	—
Amortization of deferred financing costs on capital securities	45 **(0.5)**	—	—
Net loss under U.S. GAAP	**$(460.6)**	$(173.7)	$(44.6)
Loss per share under U.S. GAAP	**$ (3.30)**	$ (1.29)	$(0.38)

The effects of the GAAP differences on the consolidated balance sheet would have been as follows. Conversion to U.S. GAAP is subject to rounding differences.

December 31, 1997	Canadian GAAP	Long-term Foreign Exchange Contracts	Share Investments	Mining Properties Amortization	Santa Elina Acquisition/ Write-Off	Capital Securities	Severance Costs	U.S. GAAP
Long-term investments and other assets	$ 6.6	$ —	$ —	$ —	$ —	$ 2.7	$ —	$ 9.3
Mining properties	107.8	—	—	(11.5)	—	—	—	96.3
Accounts payable and accrued liabilities	82.4	—	—	—	—	—	(5.0)	77.4
Gold and other financings	66.5	—	—	—	—	95.8	—	162.3
Deferred income	62.2	(6.0)	—	—	—	—	—	56.2
Other long-term obligations	56.6	4.1	—	—	—	—	—	60.7
Common shares	709.6	—	—	—	36.4	—	—	746.0
Capital securities	95.8	—	—	—	—	(95.8) 44	—	—
Deficit	631.3	(1.9)	(6.6)	11.5	36.4	(2.7) 45	(5.0)	663.1
Common shareholders' equity	153.7	1.9 1	—	(11.5) 29	—	(93.1)	5.0 14	55.9

December 31, 1996	Canadian GAAP	Long-Term Foreign Exchange Contracts	Share Investments	Mining Properties Amortization	Santa Elina Acquisition	U.S. GAAP
Long-term investments and other assets	$ 39.7	$ 10.0	$5.0	$ —	$ —	$ 54.6
Mining properties	405.0	—	—	(10.6)	83.1	477.5
Deferred income taxes	8.4	—	—	—	46.6	55.0
Common shares	709.5	—	—	—	36.4	746.0
Deficit	201.9	(10.0)	—	10.6	—	202.5
Common shareholders' equity	492.3	10.0	5.0	(10.6)	36.4	533.1

The continuity of shareholders' equity from December 31, 1996 to December 31, 1997 under U.S. GAAP would have been as follows.

	1997
Balance, beginning of year	**$ 533.1**
Net loss	**(460.6)**
Common shares issued	**0.1**
Foreign currency translation	**(5.1)**
Change in unrealized gain (loss) on share investments	**(11.6)**
Balance, end of year	**$ 55.9**

Under U.S. GAAP, the 1996 common share issuance for the acquisition of Santa Elina and the 1995 preferred stock conversions to common shares would not have been shown in the consolidated statement of cash flow as they were non-cash transactions. Accordingly, common shares issued in acquisition of Santa Elina and the cost of the Santa Elina acquisition would have been reduced by $86.1 million each for 1996, and preferred share conversions and common share issues would have been reduced by $134.3 million each for 1995 on the consolidated statement of cash flow.

Effective January 1, 1996, for the purpose of preparing U.S. GAAP financial information, the company adopted U.S. Financial Accounting Standards Board ("FASB") Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present. There were no material differences between Canadian and U.S. GAAP related to the provisions for asset impairment recorded in 1997 (note 9).

New U.S. accounting standards regarding the determination of earnings per share have been issued by the FASB. The company adopted these new standards for the purpose of preparing U.S. GAAP financial information commencing with its financial statements for the year ended December 31, 1997. Adoption of the new standards, which involves restatement of earnings (loss) per share amounts for prior periods, had no material effect on the company's earnings (loss) per share amounts under U.S. GAAP.

The FASB recently issued new accounting standards regarding the reporting of comprehensive income, which the company will adopt for purposes of preparing U.S. GAAP financial information for the year ended December 31, 1998. Comprehensive income is defined as non-owner changes in stockholders' equity, including net earnings (loss) for the period. The company will present all other comprehensive income items in addition to net earnings (loss) as part of the note reconciling Canadian and U.S. GAAP information.

New Canadian and U.S. accounting standards have been issued regarding the disclosure of segment information. The company will adopt the new standards for the year ended December 31, 1998. Adoption of the new standards is expected to have no material effect on the company's segment disclosures, but may require certain additional disclosures related to long-lived assets. Additionally, the company will be required to present interim segment information in years following 1998.

U.S. GAAP tax disclosure

Significant components of the company's deferred tax liabilities and assets under U.S. GAAP disclosure requirements would have been as follows.

			1997			1996
	Canada	U.S. and Other	**Total**	Canada	U.S. and Other	Total
Deferred tax liabilities:						
Tax over book depreciation and depletion	$ 7.3	$ 9.8	**$ 17.1**	$23.5	$ 51.8	$ 75.3
Other tax liabilities	7.0	4.1	**11.1**	7.5	—	7.5
Total deferred tax liabilities	14.3	13.9	**28.2**	31.0	51.8	82.8
Deferred tax assets:						
Net operating loss and other carryforwards	12.0	134.9	**146.9**	13.1	93.9	107.0
Book over tax depreciation and depletion	37.5	—	**37.5**	22.9	—	22.9
Accrued liabilities	7.0	35.4	**42.4**	2.7	29.1	31.8
Other tax assets	24.8	5.2	**30.0**	0.5	7.6	8.1
Total deferred tax assets before allowance	81.3	175.5	**256.8**	39.2	130.6	169.8
Valuation allowance for deferred tax assets	(73.3)	(163.2)	**(236.5)**	(16.0)	(126.0)	(142.0)
Total deferred tax assets	8.0	12.3	**20.3**	23.2	4.6	27.8
Net deferred tax liabilities	$ 6.3	$ 1.6	**$ 7.9**	$ 7.8	$ 47.2	$ 55.0

The net increase in the valuation allowance for deferred tax assets was $94.5 million for 1997 and $56.5 million for 1996.

Stock-based compensation

FASB Statement No. 123, "Accounting for Stock-Based Compensation," gives the option to either follow fair value accounting or to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related Interpretations. The company has determined that it will elect to continue to follow APB No. 25 and related Interpretations in accounting for its employee and director stock options in financial information prepared in conformity with U.S. GAAP.

In accordance with Canadian GAAP and U.S. GAAP (under APB No. 25), the company does not recognize compensation expense for stock option grants in the earnings statement, as the market prices of the underlying stock on the grant dates do not exceed the exercise prices of the options granted.

Had the company adopted Statement No. 123 for its U.S. GAAP disclosure, the following net losses would have been reported.

	1997	1996	1995
Net loss under U.S. GAAP	**$(460.6)**	$(173.7)	$(44.6)
Pro forma stock compensation expense, after a nil income tax effect	**(2.1)**	(2.8)	(0.4)
Pro forma net loss under U.S. GAAP	**$(462.7)**	$(176.5)	$(45.0)
Pro forma loss per share under U.S. GAAP	**$ (3.32)**	$ (1.31)	$(0.39)

The company has utilized the Black-Scholes option valuation model to estimate the fair value of options granted, assuming a weighted average option life of six years, risk-free interest rates ranging from 5.40% to 6.64%, dividend yields ranging from nil to 1% and a volatility factor of 40%. The weighted average fair value of options granted is estimated at $3.98 per share in 1997, $4.18 per share in 1996, and $4.37 per share in 1995.

Other

The estimated fair values of financial instruments are set out below and in note 18. The fair values were determined from quoted market prices or estimated using discounted cash flow analysis.

	1997		1996	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$17.0	**$17.0**	$103.2	$103.2
Short-term investments	$10.3	**$10.3**	$ —	$ —
Long-term investments and other assets	$ 6.6	**$ 6.6**	$ 39.7	$ 44.7
Debenture payable and other currency loans	$43.6	**$43.6**	$ 65.4	$ 65.1
Capital securities	$ 4.2	**$ 4.2**	$ —	$ —

16. Joint Ventures

Summarized below are the company's 50% interest in the Round Mountain mine and 58% interest in Santa Elina in 1997 (51% interest in 1996) (note 5), accounted for by the proportionate consolidation method. In 1997, the company wrote off its entire investment in Santa Elina of $143.6 million (note 9).

	1997	1996	1995
Revenues	**$ 79.9**	$79.9	$67.8
Operating costs	**(48.4)**	(45.4)	(35.0)
Royalties	**(5.3)**	(6.5)	(5.3)
Production taxes	**(0.9)**	(0.9)	(0.7)
Depreciation and amortization	**(13.5)**	(14.2)	(14.5)
Reclamation and mine closure	**(1.7)**	(0.9)	—
Exploration	**(8.6)**	(2.9)	—
Provision for impaired assets	**(142.1)**	—	—
Other	**(2.7)**	(0.4)	(0.1)
Earnings (loss) before income taxes	**$(143.3)**	$ 8.7	$12.2
Current assets	**$ 62.8**	$ 63.2	$ 6.6
Non-current assets	**123.4**	237.3	102.9
Current liabilities	**(11.0)**	(16.5)	(7.9)
Non-current liabilities	**(29.2)**	(18.6)	(7.2)
Equity	**$146.0**	$265.4	$ 94.4
Net cash provided (used) by:			
Operating activities	**$ 7.9**	$16.7	$42.8
Investing activities	**(28.4)**	(20.9)	(15.4)
Financing activities	**15.8**	(3.3)	—
Net increase (decrease) in cash	**$(4.7)**	$ (7.5)	$27.4

17. Geographic Segment Information

Financial information regarding geographic segments is set out below.

	1997	1996	1995
Revenue:			
Canada	**$ 68.9**	$ 63.9	$ 67.0
United States	**236.5**	273.4	293.7
	$305.4	$337.3	$360.7
Earnings (loss) before income taxes:			
Canada	**$(131.3)**	$ (32.8)	$ (41.4)
United States	**(98.2)**	(143.7)	(2.5)
Brazil and other	**(189.2)**	0.4	(0.9)
	(418.7)	(176.1)	(44.8)
Income tax expense (recovery)	**1.8**	0.6	(3.2)
Loss before preferred stock dividends	**(420.5)**	(176.7)	(41.6)
Dividends on preferred stock of subsidiary	—	—	8.5
Net loss	**$(420.5)**	$(176.7)	$ (50.1)
Assets:			
Canada	**$125.3**	$236.5	$350.3
United States	**297.0**	406.7	488.3
Brazil and other	**10.5**	188.9	32.6
Total assets	**$432.8**	$832.1	$871.2

18. Hedging Activities and Commitments

In the first quarter of 1997, the company repurchased its 218,000-ounce gold commitment that hedged the $84.0 million bond obligation (note 6). The company also repurchased all of its gold and silver forward sales positions, which consisted of 654,000 ounces of gold with delivery dates ranging from 1997 to 2002 and 8.5 million ounces of silver with delivery dates ranging from 1997 to 1999. These transactions resulted in cash proceeds of $63.1 million, which the company used, together with existing cash, to repay the $84.0 million bond obligation in March 1997. This $63.1 million has been deferred and will be recognized in earnings as the formerly hedged gold and silver production is sold. The remaining deferred gain is currently expected to be recognized in revenue as follows: $3.6 million in 1998, $38.8 million in 1999, $3.3 million in 2000, $1.9 million in 2001, and $1.4 million in 2002 and beyond.

In the first and second quarters of 1997, the company repurchased a portion of its outstanding forward currency exchange contracts. The contracts repurchased consisted of a total commitment of C$75.6 million at an average C$ to US$1.00 exchange rate of 1.55, with purchase dates ranging from 1998 to 2000. The transactions resulted in cash proceeds of $6.0 million, which have been deferred and will be recognized as a reduction to operating costs when the hedged Canadian dollar transactions occur. The remaining deferred gain is currently expected to be recognized as follows: $3.8 million in 1999 and $2.2 million in 2000.

In January 1998, the company temporarily suspended operations at the Lupin mine until a significant recovery in the gold price occurs. Deferred revenue amounts related to the 1997 repurchase of Lupin gold forwards and foreign currency exchange contracts that were originally scheduled for 1998 recognition will continue to be deferred and will be matched to production and cash disbursements in years subsequent to 1998.

In January 1998, the company received proceeds of $8.7 million on the repurchase of a portion of its outstanding gold forward sales. The repurchased forward sales include 50,000 ounces of gold scheduled for delivery in each of the five years 1998 to 2002 at forward prices of $395 per ounce in 1998 and 1999 and $374 per ounce in the years 2000 to 2002, for a total of 250,000 ounces of gold. Additionally, related to the repurchase, the company eliminated contingent forward sales of up to an additional 75,000 ounces of gold at $400 per ounce in each of the three years 2000 to 2002 contingent upon the spot gold price reaching various levels above $400 per ounce. This $8.7 million has been deferred and will be recognized in earnings as the formerly hedged production is sold. The remaining deferred gain is scheduled to be recognized in revenue as follows: $1.8 million in 1998, $1.8 million in 1999, $1.7 million in 2000, $1.7 million in 2001, and $1.7 million in 2002.

In the first quarter of 1998 the company entered into gold forward sales contracts of 270,000 ounces at an average price of $319 per ounce and silver forward sales contracts of 16.0 million ounces at an average price of $6.01 per ounce. These hedge positions relate to McCoy/Cove production and will ensure the realization of adequate precious metals prices which will allow the company to proceed with remediation of the Cove pit wall in the second half of 1998 (note 8).

In the second quarter of 1997, the company swapped a portion of its capital security interest obligation for a commitment to deliver 291,358 ounces of gold in March 2002 at a price of $343 per ounce of gold (note 7). During the first quarter of 1998, the company restructured the gold swap agreement. The restructuring resulted in a conversion of the swap ounces to forward sales commitments, as follows: 57,925 ounces at $379 per ounce in 1998, 175,509 ounces at $379 per ounce in 1999, and 57,925 ounces at $379 per ounce in 2000.

This note to the company's consolidated financial statements shows the company's pro forma hedge and commitments at December 31, 1997, adjusted to reflect the first quarter 1998 transactions described above.

Gold and silver commitments

The company's pro forma gold and silver commitments at December 31, 1997, adjusted to reflect the first quarter 1998 transactions described above, were as follows.

	Forward Sales (ounces)	Price of Forward Sales (per ounce)	Gold Loans/Swap (ounces)	Average Price of Loans/Swap (per ounce)
Gold				
1998	107,925	$384	29,756	$399
1999	255,509	374	15,367	393
2000	207,925	336	12,031	388
2001	90,000	321	6,563	388
	661,359	$356	63,717	$394
Silver				
1998	5,900,000	$5.55		
1999	4,000,000	5.77		
2000	6,000,000	6.02		
2001	6,000,000	6.02		
	21,900,000	$5.85		

The company had contingent forward sales of up to 12,500 ounces of gold at $389 per ounce in each quarter during the years 2000 through 2007. The number of ounces in this contingent forward sale will be determined based on the spot price of gold two days before the end of the previous quarter and the quantity of gold delivered in the previous quarter. These contingent obligations have not been included above.

The delivery prices on the gold loans stated above represent the prices established per the gold loan agreements. Gold loans are remeasured at each balance sheet date, resulting in deferred gains of $6.5 million at December 31, 1997. Remeasurement gains or losses are recorded in deferred income and are included in revenue when the production related to the loans is delivered (note 6).

The company's pro forma option position at December 31, 1997, adjusted to reflect the first quarter 1998 transactions described above, was as follows.

	Put Options Purchased		Call Options Sold	
	Ounces	Strike Price per Ounce	Ounces	Strike Price per Ounce
Gold				
1998	392,500	$323	150,000	$399
1999	57,500	320	—	—
	450,000	$322	150,000	$399
Silver				
1998	—	$—	2,165,000	$5.94
1999	—	—	1,835,000	5.77
	—	$—	4,000,000	$5.86

	Put Options Sold		Call Options Purchased	
	Ounces	Strike Price per Ounce	Ounces	Strike Price per Ounce
Silver				
1998	2,000,000	$4.75	3,915,000	$9.00
1999	2,000,000	4.75	3,000,000	9.00
2000	5,000,000	4.75	5,000,000	9.00
2001	5,000,000	4.75	5,000,000	9.00
	14,000,000	$4.75	16,915,000	$9.00

Currency position

The company's obligations to purchase Canadian dollars at December 31, 1997 were as follows.

	Canadian Dollars	Exchange Rate (C$ to U.S.$1.00)
1998	$ 50,000,000	1.37
1999	49,000,000	1.36
2000	24,000,000	1.34
	$123,000,000	1.36

Crude oil position

The company's swap contracts and forward purchase commitment at December 31, 1997 were as follows.

	Barrels of Crude Oil Purchased	Price per Barrel
1998	390,000	$17.57
1999	20,000	17.63
	410,000	$17.58

Other hedging activity information

The company assesses the exposure that may result from a hedging transaction prior to entering into the commitment, and only enters into transactions which it believes accurately hedge the underlying risk and could be safely held to maturity. The company does not actively engage in the practice of trading derivative securities for profit. The company regularly reviews its unrealized gains and losses on hedging transactions.

Shown below are the carrying amounts and unrealized gains or losses on the company's hedging positions at December 31, 1997 and 1996, and at March 13, 1998, adjusted to reflect the first quarter 1998 transactions described above.

	At December 31, 1997		At March 13, 1998	
	Carrying Amount	Unrealized Gain (Loss)	Carrying Amount	Unrealized Gain (Loss)
Gold loans (note 6)	$18.6	$ —	$18.6	$ —
Gold swap on capital securities (note 7)	—	19.7	—	—
Off-balance sheet instruments:				
Gold forward sales	—	10.9	—	22.9
Silver forward sales	—	(6.0)	—	(1.9)
Gold options — puts	2.8	11.3	2.8	9.0
— calls	(0.7)	0.7	(0.7)	0.7
Silver options — puts	—	—	(8.6)	(6.3)
— calls	(1.7)	(2.5)	5.0	1.0
Foreign currency contracts	—	(4.1)	—	(2.5)
Crude oil contracts	—	0.5	—	(0.8)
		$30.5		$22.1

	At December 31, 1996	
	Carrying Amount	Unrealized Gain (Loss)
Gold swap (note 6)	$83.8	$ 7.1
Gold loan (note 6)	33.7	—
Off-balance sheet instruments:		
Gold forward sales	—	50.3
Silver forward sales	—	8.8
Gold options — puts	0.4	—
— calls	—	—
Silver options — puts	1.0	(0.3)
— calls	(1.0)	1.0
Foreign currency contracts	—	10.0
Crude oil contracts	—	3.0
		$79.9

Fair values are estimated for the contract settlement dates based on market quotations of various input variables. These variables are used in valuation models that estimate the fair market value.

The credit risk exposure related to all hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. To reduce counterparty credit exposure, the company deals only with large credit-worthy financial institutions, and limits credit exposure to each. In addition, to allow for situations where positions may need to be reversed, the company deals only in markets it considers highly liquid.

Most of the company's hedging transactions have no margin requirements. In some instances, however, mainly for the longer-term forward sales and options, margin deposits are required when the market value exceeds the contract value by a predetermined amount.

The fair value of the company's hedged position can be affected by market conditions beyond the company's control. The effect of changes in various market factors on the company's outstanding hedged position at March 13, 1998, adjusted to reflect the first quarter 1998 transactions described above, would be as follows.

	Amount of Change	Effect on Market Value of Hedged Position (millions of U.S.$)
Change in:		
Gold prices	$10.00/ounce	$9.8
Silver prices	$0.25/ounce	$4.3
Canadian dollar	U.S.$0.01	$1.0
Crude oil prices	$1.00/barrel	$0.3
Interest rates (effect on gold and silver options, gold loans and swaps)	1%	$5.2

Hedging gains and losses represent the difference between spot or market prices and realized amounts. Shown below are the hedging gains (losses) recognized in earnings.

	1997	1996	1995
Revenue:			
Gold loans and swaps	**$1.9**	$(3.9)	$(0.6)
Gold forward sales	**1.0**	1.5	2.9
Silver forward sales	**0.5**	1.9	1.9
Gold and silver options	**0.4**	0.5	0.4
Operating costs:			
Foreign currency contracts	**1.3**	1.5	0.8
Crude oil contracts	**1.3**	1.1	0.3
Interest expense:			
Gold swap on capital securities (note 7)	**0.2**	—	—
Dividends on preferred stock of subsidiary:			
Interest rate swap	—	—	(0.5)
	$6.6	$ 2.6	$ 5.2

19. Other Commitments and Contingencies

Royalties

Round Mountain mine production is subject to a net smelter return royalty ranging from 3.53% at gold prices of $320 per ounce or less to 6.35% at gold prices of $440 per ounce or more. Its production is also subject to a gross revenue royalty of 3.0%, reduced to 1.5% after $75.0 million has been paid. For the period from inception through December 31, 1997, cumulative royalties of $19.2 million have been paid on the gross revenue royalty.

McCoy/Cove production is subject to a 2% net smelter return royalty. This royalty is based on sales less certain deductions.

A portion of production from the Lamefoot area of the Kettle River mine is subject to a 5% net smelter return royalty. K-2 area production at Kettle River is subject to a 5% gross proceeds royalty and a net smelter return royalty ranging from 2% at gold prices of $300 per ounce or less to 3% at gold prices of $400 per ounce or more.

Operating lease commitments

The company's principal lease commitments are for office premises and equipment. The company's commitments under the remaining terms of the leases are approximately $16.7 million, payable as follows: $3.5 million in 1998, $2.6 million in 1999, $2.5 million in 2000, $1.9 million in 2001, $1.9 million in 2002 and $4.3 million thereafter.

Contingencies

In 1997, private parties acting on behalf of the United States in a *qui tam* action commenced suit in federal court against 14 mining companies, including the company. A *qui tam* suit is one brought by private parties seeking remedies for alleged wrong-doing to which the government is allegedly entitled but has declined to seek recovery. The complaint asserts that because of foreign ownership of the companies, they are not entitled to locate, operate or patent mining claims on federal public lands. It seeks invalidation of all such mining claims held by the companies and recovery of triple the value of production from them, and from their allegedly unlawfully patented claims. In March 1998, the federal district court ruled in favor of the defendants' motions to dismiss the complaint. This ruling is subject to appeal.

Quarterly Financial Highlights (Unaudited)

	Revenue	Net Loss	Loss per Share
1997			
First quarter	$ 73.8	$ (16.8)	$(0.12)
Second quarter	75.8	(20.7)	(0.17)
Third quarter	74.5	(327.5)	(2.36)
Fourth quarter	81.3	(55.5)	(0.41)
Total	$305.4	$(420.5)	$(3.06)
1996			
First quarter	$ 67.8	$ (16.2)	$(0.12)
Second quarter	95.1	(14.6)	(0.11)
Third quarter	94.9	(42.4)	(0.31)
Fourth quarter	79.5	(103.5)	(0.77)
Total	$337.3	$(176.7)	$(1.31)

In 1997, these losses include provisions for impaired assets of $309.8 million ($2.22 per share) in the third quarter and $36.2 million ($0.26 per share) in the fourth quarter, and $11.2 million ($0.08 per share) for severance costs in the fourth quarter. In 1996, the losses reflect $77.1 million ($0.57 per share) to write off the $57.1 million book value of the Alaska-Juneau development project and to accrue $20.0 million for estimated reclamation and closure costs at the site in the fourth quarter, and $30.0 million ($0.22 per share) for pit wall stabilization at the McCoy/Cove mine in the third quarter (note 9).

Selected Financial Data

A Facts & Figures Database is available via the Internet or on computer diskette or computer printout at no charge. Please reach us on the Internet at www.echobay.com or write to Investor Relations at the address provided on the inside back cover.

Eleven-Year Financial Data

Years ended December 31

Millions of U.S. dollars, except for gold price and per share data	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Earnings Statement Data											
Revenue	**$305.4**	$ 337.3	$360.7	$377.6	$366.5	$312.4	$315.6	$338.9	$297.0	$267.7	$211.7
Average gold price realized per ounce	**362**	384	388	387	360	357	392	404	400	440	439
Pretax earnings (loss) before write-downs	**(56.0)**	(69.0)	(44.7)	13.0	9.7	(11.3)	9.2	13.9	39.8	68.9	61.7
Earnings (loss) before taxes	**(418.7)**	(176.1)	(44.7)	13.0	9.7	(29.4)	9.2	(68.2)	19.8	68.9	61.7
Net earnings (loss) before preferred share dividends	**(420.5)**	(176.7)	(41.6)	17.3	10.2	(27.4)	6.8	(59.7)	16.0	54.4	48.5
Net earnings (loss)	**(420.5)**	(176.7)	(50.1)	8.0	3.6	(31.7)	6.8	(59.7)	16.0	54.4	48.5
Earnings (loss) per common share	**(3.06)**	(1.31)	(0.43)	0.07	0.03	(0.30)	0.07	(0.60)	0.16	0.56	0.52
Net earnings (loss) attributable to common shareholders	**(426.2)**	(176.7)	(50.1)	8.0	3.6	(31.7)	6.8	59.7	16.0	54.4	48.5
Effective tax rate	**(0.4%)**	(0.4%)	7.2%	(33.3%)	(5.1%)	6.9%	25.8%	12.5%	19.1%	21.0%	21.4%
Return on average common shareholders' equity	**(120.7%)**	(32.7%)	(9.1%)	1.6%	0.7%	(6.8%)	1.5%	(12.5%)	3.2%	12.7%	16.0%
Weighted average common shares outstanding (millions)	**139.4**	134.4	116.2	112.5	108.2	105.2	101.2	99.1	99.0	96.9	93.4
Balance Sheet Data											
Working capital (deficiency)	**$ (28.7)**	$ (52.9)	$109.6	$186.2	$148.9	$ 31.1	$ (14.1)	$ (35.5)	$ (45.3)	$ 0.6	$ 20.0
Current ratio	**0.73**	0.74	1.84	4.24	2.01	1.42	0.80	0.66	0.56	1.01	1.38
Total assets	**$432.8**	$832.1	$871.2	$881.7	$990.5	$936.6	$875.0	$908.7	$992.1	$863.9	$579.0
Gold, silver and currency financings	**66.5**	182.9	152.8	132.7	217.4	220.1	233.7	372.0	380.7	275.7	139.7
Deferred income taxes	**7.9**	8.4	8.1	8.4	14.6	20.0	26.0	25.5	36.3	33.9	26.7
Preferred shares[1]	—	—	—	136.3	136.3	136.3	—	—	—	—	—
Common shareholders' equity	**153.7**	492.3	588.9	509.7	513.7	440.3	491.5	443.1	509.6	496.6	362.1
Common shares outstanding (millions)	**139.4**	139.4	129.9	112.7	112.2	105.2	105.1	99.1	99.0	98.9	95.0
Other Financial Data											
Cash dividends:											
Common shares	**$ —**	$ 10.1	$ 9.0	$ 8.5	$ 8.1	$ 7.9	$ 7.7	$ 7.4	$ 7.2	$ 6.8	$ 5.8
Preferred shares[1]	—	—	8.5	10.1	10.1	4.3	—	—	—	—	—
Net cash flows provided from (used in) operating activities	**(9.2)**	29.9	67.3	92.2	101.7	73.7	97.6	100.1	80.6	104.0	73.7
Capital, investment and exploration spending	**151.1**	161.7	138.3	66.8	44.4	81.4	65.6	91.2	238.8	358.1	153.1
United States accounting:[2]											
Earnings (loss) before taxes	**(505.8)**	(173.1)	(39.2)	19.2	13.9	(28.1)	8.6	46.9	20.5	75.7	39.4
Net earnings (loss)	**(460.6)**	(173.7)	(44.6)	9.3	12.7	(30.4)	6.2	55.4	16.7	60.9	26.2
Earnings (loss) per common share	**(3.30)**	(1.29)	(0.38)	0.08	0.12	(0.29)	0.06	(0.56)	0.17	0.63	0.28
Total assets	**423.9**	919.6	881.3	872.6	975.2	917.1	854.2	907.8	980.7	847.4	555.4
Gold, silver and currency financings	**162.3**	182.9	152.8	132.7	217.4	220.1	233.7	391.3	385.2	275.7	139.7
Common shareholders' equity	**55.9**	533.1	599.0	500.6	503.3	420.8	470.7	422.9	493.7	480.0	339.1

[1]Convertible preferred shares were issued in 1992 and redeemed in 1995 by a subsidiary, Echo Bay Finance Corp.

[2]The company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada, which differ in some respects from those in the United States. The effects on the consolidated financial statements of such differences are summarized here. See also note 15 beginning on page 33.

Operating Data

Current information is available during the year at www.echobay.com

Consolidated Production and Cost Data

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Gold production (000 ounces)	**721.1**	768.9	754.8	817.9	873.9	764.2	733.9	817.0	717.2	585.0	500.5
Silver production (000 ounces)	**11,021.7**	7,102.3	11,905.8	10,443.2	12,454.3	7,921.5	5,619.0	2,083.7	2,358.2	1,009.4	446.3
Average gold-to-silver price ratio	**67:1**	75:1	74:1	73:1	85:1	87:1	89:1	82:1	70:1	67:1	65:1
Year-end gold-to-silver price ratio	**48:1**	76:1	76:1	79:1	77:1	90:1	92:1	94:1	76:1	68:1	70:1
Cost per ounce of gold produced:											
Cash operating cost[1]	**$249**	$254	$229	$209	$209	$232	$244	$244	$220	$211	$207
Royalties	**9**	11	9	10	8	7	7	12	10	13	15
Production taxes	**1**	3	5	7	5	3	3	4	3	4	1
Total cash cost	**259**	268	243	226	222	242	254	260	233	228	223
Depreciation and amortization	**90**	98	97	89	88	98	93	88	75	66	45
Reclamation and mine closure	**10**	7	6	5	5	5	5	—	—	1	—
Total production cost	**$359**	$373	$346	$320	$315	$345	$352	$348	$308	$295	$268

[1]Effective January 1, 1996, Echo Bay adopted the new Gold Production Cost Standard developed by the Gold Institute as a means of facilitating meaningful comparisons among companies through uniform presentation of all cost data industry-wide. This table converts the "cash production cost" reported by Echo Bay in all prior years into pro forma "cash operating cost" in accordance with the new standard. In Echo Bay's case, there is no material difference between the two.

Mine Operations Data

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Round Mountain (Echo Bay's 50% interest)											
Gold produced (000 ounces)	**238.8**	205.5	172.2	211.8	187.3	185.3	169.5	241.6	159.3	116.9	95.3
Heap leached on reusable leach pads:											
Ore processed (tons/day) (100%)	**26,608**	27,737	22,490	18,980	28,329	43,947	44,339	43,766	44,070	35,637	31,482
Days of operation	**359**	354	354	355	361	355	355	355	355	362	355
Total ore processed (000 tons) (100%)	**9,552**	9,819	7,961	6,738	10,227	15,601	15,740	15,537	15,645	12,902	11,176
Grade (ounce/ton)	**0.036**	0.036	0.034	0.040	0.033	0.036	0.031	0.037	0.029	0.029	0.027
Recovery rate (%)	**74.9**	66.1	70.9	78.7	69.4	58.1	65.9	74.7	64.8	63.7	63.8
Gold recovered (000 ounces)	**134.3**	115.7	96.0	108.4	128.4	155.9	160.7	215.9	143.1	116.9	95.3
Heap leached on dedicated leach pads:											
Ore processed (tons/day) (100%)	**107,716**	87,706	66,197	54,161	39,379	2,615	—	—	—	—	—
Days of operation	**359**	354	354	355	361	355	—	—	—	—	—
Total ore processed (000 tons) (100%)	**38,670**	31,048	23,434	19,227	14,216	928	—	—	—	—	—
Grade (ounce/ton)	**0.010**	0.011	0.012	0.014	0.014	0.022	—	—	—	—	—
Recovery rate[1]											
Gold recovered (000 ounces)	**97.8**	83.5	69.4	86.8	31.2	—	—	—	—	—	—
Milled:											
Ore processed (tons/day)	**n.m.**	—	—	—	—	—	—	—	—	—	—
Days of operation	**63**	—	—	—	—	—	—	—	—	—	—
Total ore processed (000 tons) (100%)	**274**	—	—	—	—	—	—	—	—	—	—
Grade (ounce/ton)	**0.041**	—	—	—	—	—	—	—	—	—	—
Recovery rate (%)	**60.0**	—	—	—	—	—	—	—	—	—	—
Gold recovered (000 ounces)	**3.2**	—	—	—	—	—	—	—	—	—	—
Recovered in gravity plant:											
Gold recovered (000 ounces)	**3.6**	6.3	6.1	16.5	26.7	26.0	—	—	—	—	—
Other:[2]											
Gold recovered (000 ounces)	**—**	—	0.7	0.1	1.1	3.4	8.8	25.7	16.2	—	—
Mining cost/ton of ore and waste	**$0.65**	$0.69	$0.61	$0.53	$0.60	$0.62	$0.68	$0.70	$0.63	$0.57	$0.50
Heap leaching cost/ton of ore	**$0.61**	$0.80	$0.65	$0.66	$0.91	$1.54	$1.66	$1.74	$1.54	$1.75	$1.60
Milling cost/ton of ore	**$4.38**	—	—	—	—	—	—	—	—	—	—
Production cost per ounce of gold produced:[3]											
Direct mining expense	**$208**	$228	$218	$156	$205	$204	$233	$177	$244	$252	$240
Deferred stripping cost	**2**	(2)	(23)	8	(7)	5	1	19	(21)	(44)	(51)
Inventory movements and other	**(3)**	(5)	—	12	3	4	(6)	2	(1)	(4)	(4)
Cash operating cost	**$207**	$221	$195	$176	$201	$213	$228	$198	$222	$204	$185

n.m. = not meaningful

[1]Estimated at 50%. Actual recoveries will not be known until leaching is complete.

[2]A small satellite mine and mill at Manhattan, Nevada became part of the Round Mountain joint venture on February 1, 1989.

[3]Effective January 1, 1996, Echo Bay adopted the new Gold Production Cost Standard developed by the Gold Institute as a means of facilitating meaningful comparisons among companies through uniform presentation of all cost data industry-wide. This table converts the "cash production cost" reported by Echo Bay in all prior years into pro forma "cash operating cost" in accordance with the new standard. In Echo Bay's case, there is no material difference between the two.

Mine Operations Data (continued)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Production cost per ounce of gold produced[3] (continued):											
Cash operating cost	**$207**	$221	$195	$176	$201	$213	$228	$198	$222	$204	$185
Royalties	**22**	32	31	32	26	24	26	29	28	28	29
Production taxes	**4**	4	4	8	5	3	5	7	6	8	3
Total cash cost	**233**	257	230	216	232	240	259	234	256	240	217
Depreciation and amortization	**57**	69	82	71	87	68	73	58	68	40	29
Reclamation and mine closure	**7**	5	5	4	4	3	3	—	—	—	—
Total production cost	**$297**	$331	$317	$291	$323	$311	$335	$292	$324	$280	$246
Capital expenditures (millions)	**$30.7**	$17.5	$11.7	$8.7	$6.6	$12.4	$3.9	$5.4	$18.6	$38.6	$20.2
Deferred (applied) mining expenditures (millions)	**$1.0**	$0.4	$4.0	$(1.7)	$1.3	$(0.9)	$(0.2)	$(4.7)	$3.3	$5.1	$4.9
McCoy/Cove (100% owned)											
Gold produced (000 ounces)	**187.0**	271.7	310.0	359.4	395.6	301.5	284.3	255.0	214.6	104.0	90.8
Silver produced (000 ounces)	**11,021.7**	7,102.3	11,905.8	10,443.2	12,454.3	7,921.5	5,619.0	1,982.5	2,259.7	764.1	—
Heap leached:											
Ore processed (tons/day)	**17,840**	16,671	11,966	21,682	24,090	24,806	14,214	15,684	15,649	8,069	11,791
Days of operation	**364**	364	364	364	371	364	364	364	364	371	364
Total ore processed (000 tons)	**6,494**	6,068	4,355	7,892	8,938	9,029	5,174	5,709	5,696	2,994	4,292
Gold grade (ounce/ton)	**0.018**	0.018	0.018	0.013	0.017	0.014	0.020	0.021	0.020	0.053	0.040
Silver grade (ounce/ton)	**0.29**	0.27	0.49	0.48	0.88	0.60	0.69	0.20	0.44	1.14	—
Gold and silver recovery rates[4]											
Gold recovered (000 ounces)	**55.1**	66.8	59.9	66.6	100.1	77.6	85.3	75.8	85.9	104.0	90.8
Silver recovered (000 ounces)	**396.9**	513.2	877.5	940.7	2,406.9	1,130.9	949.1	354.9	819.5	764.1	—
Milled:											
Ore processed (tons/day)	**9,315**	9,031	7,275	7,307	7,708	6,794	6,753	6,486	7,461	—	—
Days of operation	**364**	364	364	364	371	364	364	340	182	—	—
Total ore processed (000 tons)	**3,391**	3,287	2,648	2,660	2,860	2,473	2,458	2,205	1,358	—	—
Gold grade (ounce/ton)	**0.061**	0.086	0.113	0.140	0.113	0.110	0.094	0.097	0.107	—	—
Silver grade (ounce/ton)	**4.54**	3.14	5.27	5.29	4.62	4.55	2.69	1.32	3.21	—	—
Gold recovery rate (%)	**64.3**	79.5	82.4	80.3	90.0	83.6	86.1	85.2	86.8	—	—
Silver recovery rate (%)	**69.7**	73.5	78.8	70.1	71.0	65.0	71.8	58.1	34.3	—	—
Gold recovered (000 ounces)	**131.9**	204.9	250.1	292.7	295.5	224.0	199.0	179.2	128.7	—	—
Silver recovered (000 ounces)	**10,624.8**	6,589.1	11,028.3	9,502.5	10,047.4	6,790.6	4,669.9	1,627.5	1,440.1	—	—
Mining cost/ton of ore and waste	**$0.74**	$0.72	$0.67	$0.68	$0.74	$0.72	$0.84	$0.83	$0.66	$0.73	$0.83
Heap leaching cost/ton of ore	**$1.70**	$1.68	$2.32	$1.09	$1.29	$1.31	$2.08	$1.85	$1.84	$2.75	$1.56
Milling cost/ton of ore	**$8.82**	$9.50	$10.67	$10.09	$9.28	$10.74	$10.17	$12.66	$9.04	—	—
Production cost per ounce of gold produced:[3,5]											
Direct mining expense	**$276**	$286	$206	$191	$187	$257	$281	$340	$231	$243	$296
Deferred stripping cost	**(10)**	(16)	15	6	3	(24)	(37)	(68)	(19)	(54)	—
Inventory movements and other	**5**	1	(4)	(3)	—	(3)	5	(2)	(1)	13	(103)
Cash operating cost	**271**	271	217	194	190	230	249	270	211	202	193
Royalties	**3**	5	5	6	5	4	4	4	4	9	14
Production taxes	**(1)**	4	7	9	7	4	3	5	4	10	4
Total cash cost	**273**	280	229	209	202	238	256	279	219	221	211
Depreciation and amortization	**110**	117	99	91	86	100	100	96	76	67	29
Reclamation and mine closure	**10**	8	5	5	5	4	4	—	—	—	—
Total production cost	**$393**	$405	$333	$305	$293	$342	$360	$375	$295	$288	$240
Capital expenditures (millions)	**$2.2**	$7.3	$8.6	$5.2	$6.7	$24.4	$8.7	$17.8	$103.1	$111.7	$40.3
Deferred (applied) mining expenditures (millions)	**$3.7**	$6.0	$(7.3)	$(3.0)	$(1.5)	$9.5	$12.7	$19.1	$4.8	$6.2	—
Lupin (100% owned)											
Gold produced (000 ounces)	**165.3**	166.8	172.1	180.1	217.5	214.5	216.9	195.2	195.6	202.4	193.1
Milled:											
Ore processed (tons/day)	**2,167**	2,111	1,986	2,241	2,297	2,043	1,998	1,903	1,893	1,860	1,859
Days of operation	**364**	364	364	364	371	364	364	364	364	371	364
Total ore processed (000 tons)	**789**	768	723	816	852	744	727	693	689	690	677
Grade (ounce/ton)	**0.226**	0.235	0.258	0.238	0.272	0.308	0.317	0.299	0.301	0.309	0.300
Recovery rate (%)	**92.6**	92.5	92.5	92.9	93.7	93.5	94.2	94.2	94.3	94.9	95.2

[3] Effective January 1, 1996, Echo Bay adopted the new Gold Production Cost Standard developed by the Gold Institute as a means of facilitating meaningful comparisons among companies through uniform presentation of all cost data industry-wide. This table converts the "cash production cost" reported by Echo Bay in all prior years into pro forma "cash operating cost" in accordance with the new standard. In Echo Bay's case, there is no material difference between the two.

[4] The gold recovery rate is estimated at 68% for crushed ore and 48% for uncrushed, run-of-mine ore. The silver recovery rate is estimated at 35% for crushed ore and 10% for uncrushed, run-of-mine ore. Actual recoveries will not be known until leaching is complete.

[5] To convert costs per ounce of gold into comparable costs per ounce of co-product silver, divide by the year's average gold-to-silver price ratio.

Mine Operations Data (continued)

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Mining cost/ton (Canadian dollars)	**C$46.09**	C$44.08	C$44.23	C$40.45	C$35.54	C$34.79	C$34.77	C$31.50	C$32.22	C$31.02	C$26.56
Milling cost/ton (Canadian dollars)	**C$11.77**	C$12.39	C$12.26	C$12.03	C$12.27	C$13.49	C$18.47	C$19.76	C$20.39	C$21.04	C$21.72
Production cost per ounce of gold produced:[3]											
Direct mining expense (Canadian dollars)	**C$381**	C$411	C$423	C$375	C$291	C$288	C$285	C$314	C$306	C$245	C$268
Deferred mine development	**13**	(4)	(22)	(4)	5	1	(3)	(36)	(22)	(16)	(16)
Inventory movements and other	**(1)**	1	4	4	13	(3)	(13)	(10)	(11)	22	(11)
Cash operating cost (Canadian dollars)	**C$393**	C$408	C$405	C$375	C$309	C$286	C$269	C$268	C$273	C$251	C$241
Cash operating cost (U.S. dollars)	**$284**	$299	$296	$274	$240	$238	$235	$229	$231	$204	$182
Royalties	**—**	—	—	—	—	—	—	—	—	—	—
Production taxes	**—**	—	—	—	—	—	—	—	—	—	—
Total cash cost	**284**	299	296	274	240	238	235	229	231	204	182
Depreciation and amortization	**95**	92	87	80	76	73	70	74	60	55	50
Reclamation and mine closure	**14**	8	7	6	7	6	7	—	—	—	—
Total production cost	**$393**	$399	$390	$360	$323	$317	$312	$303	$291	$259	$232
Capital expenditures (millions)	**$12.3**	$15.7	$14.5	$8.5	$4.5	$12.8	$9.0	$11.6	$14.4	$19.8	$7.2
Deferred (applied) mining expenditures (millions)	**$(1.8)**	$0.2	$2.8	$0.5	$(0.9)	$(0.3)	$0.6	$6.0	$3.8	$2.7	$2.4
Kettle River (Echo Bay's 100% interest in 1993-97; 70% in 1990-92)											
Gold produced (000 ounces)	**129.9**	124.9	100.4	66.8	73.4	62.9	63.2	58.3	—	—	—
Milled:											
Ore processed (tons/day) (100%)	**2,118**	1,652	1,504	1,438	1,551	1,805	1,772	1,559	—	—	—
Days of operation	**364**	364	364	364	371	364	364	336	—	—	—
Total ore processed (000 tons) (100%)	**771**	601	548	523	575	657	645	524	—	—	—
Grade (ounce/ton)	**0.197**	0.240	0.212	0.149	0.146	0.155	0.164	0.194	—	—	—
Recovery rate (%)	**85.4**	86.5	86.6	85.6	87.7	87.9	85.5	88.0	—	—	—
Mining cost/ton of ore	**$21.53**	$21.12	$22.60	$11.06	$16.12	$21.77	$23.64	$20.23	—	—	—
Milling cost/ton of ore	**$10.58**	$11.96	$12.76	$13.54	$12.80	$12.16	$12.73	$14.88	—	—	—
Production cost per ounce of gold produced:[3]											
Direct mining expense	**$231**	$190	$237	$225	$281	$296	$300	$265	—	—	—
Deferred mine development	**—**	—	—	—	—	6	(7)	—	—	—	—
Inventory movements and other	**(4)**	11	(7)	28	(6)	(15)	5	(18)	—	—	—
Cash operating cost	**227**	201	230	253	275	287	298	247	—	—	—
Royalties	**14**	10	8	5	10	1	—	—	—	—	—
Production taxes	**2**	2	2	2	2	2	2	1	—	—	—
Total cash cost	**243**	213	240	260	287	290	300	248	—	—	—
Depreciation and amortization	**90**	104	119	140	129	235	150	127	—	—	—
Reclamation and mine closure	**12**	8	7	6	2	7	5	—	—	—	—
Total production cost	**$345**	$325	$366	$406	$418	$532	$455	$375	—	—	—
Capital expenditures (millions)	**$3.8**	$8.8	$9.5	$10.0	$7.9	$7.4	$4.3	$3.5	—	—	—
Deferred (applied) mining expenditures (millions)	**—**	—	—	—	—	—	$(0.4)	$0.4	—	—	—

[3]Effective January 1, 1996, Echo Bay adopted the new Gold Production Cost Standard developed by the Gold Institute as a means of facilitating meaningful comparisons among companies through uniform presentation of all cost data industry-wide. This table converts the "cash production cost" reported by Echo Bay in all prior years into pro forma "cash operating cost" in accordance with the new standard. In Echo Bay's case, there is no material difference between the two.

"Safe Harbor" Statement

In accordance with the Private Securities Litigation Reform Act of 1995, we make forward-looking statements in this annual report on a number of pages, including the inside front cover, pages 1-14 and pages 17-19. Forward-looking statements are those that are not historical facts. They involve risks and uncertainties that could cause actual results to differ materially from targeted results. These risks and uncertainties include but are not limited to significant declines in precious metals prices and/or increases in production costs, which could render projects uneconomic; ability to access financing; changes in project parameters as plans continue to be refined; differences in ore grades, recovery rates and tons mined from those expected; changes in mining, milling and/or heap leaching rates from currently planned rates; the results of current exploration activities and new opportunities; and other factors detailed in the company's filings with the U.S. Securities and Exchange Commission.

Ore Reserves and Other Mineralization

Ore Reserves

"Ore Reserves" refer to the tonnage and grade of an economically and legally extractable ore body. Echo Bay's reserves are minable reserves. They include allowance for dilution of ore in the mining process; they do not reflect any subsequent losses in leaching or milling. Securities regulations in both Canada and the United States set strict requirements for proven and probable ore reserves.

—*Proven Reserves* can be accurately estimated by establishing the size, shape and mineral content of an ore body by inspection and closely spaced samples.

—*Probable Reserves* have reasonable geologic continuity but cannot be considered proven because inspection and measurement locations are not detailed enough to estimate as accurately the size, shape and mineral content of the ore body.

Other Mineralization

"Other Mineralization" is called "Possible Ore Reserves" in Canada (in the United States, only "Proven and Probable Ore Reserves" can be referred to as "Reserves"). It is calculated in accordance with Canadian securities regulations. "Possible Ore" means material for which quantitative estimates are based largely on broad knowledge of the geological character of the deposit and for which there are fewer samples or measurements than for reserves; the quantitative estimates are based on an assumed continuity or repetition for which there are reasonable geological indications, including comparison with deposits of similar type. Bodies that are completely concealed may be included if there is specific evidence of their presence.

Proven and Probable Reserves[1]

	1997			1996		
	Tons[2] **(000)**	**Grade**[3] **(oz/ton)**	**Content**[4] **(000 oz)**	Tons[2] (000)	Grade[3] (oz/ton)	Content[4] (000 oz)
Gold						
Producing Mines:						
Round Mountain (50%)	**200,663**	**0.018**	**3,519**	238,255	0.019	4,525
McCoy/Cove	**24,737**	**0.037**	**915**	35,379	0.033	1,183
Lupin	**2,018**	**0.269**	**543**	1,576	0.281	443
Kettle River	**1,734**	**0.196**	**339**	1,987	0.186	370
			5,316			6,521
Development Properties:[5]						
Aquarius	**19,977**	**0.064**	**1,274**	21,730	0.059	1,277
Paredones Amarillos (60%)	**28,196**	**0.032**	**889**	23,972	0.032	775
			2,163			2,052
Total gold			**7,479**			8,573
Silver						
Producing Mines:						
McCoy/Cove	**24,737**	**1.88**	**46,525**	35,379	1.52	53,858
Total silver			**46,525**			53,858

[1]Echo Bay's share, estimated at year-end. Estimates for 1997 are based on a long-term gold price assumption of $350 per ounce and long-term silver price assumption of $5.00 per ounce. Estimates for 1996 were based on a $375 gold price assumption and $5.00 silver price assumption. If 1997 estimates were to be based on a $375 gold price assumption (with no change in the silver price), Echo Bay believes that ore reserves would be approximately 3% higher. If 1997 estimates were to be based on a gold price assumption as low as $300 per ounce (with no change in the silver price), Echo Bay believes that ore reserves would be approximately 16% lower.

The cutoff grades (minimum grades that can be mined and processed economically) are 0.006 for oxides and 0.018 for nonoxides at Round Mountain, 0.008 gold-equivalent ounce/ton for oxides and 0.053 for sulfides at McCoy/Cove, 0.146 at upper levels of the mine and 0.204 at lower levels at Lupin, 0.102 for Lamefoot and 0.139 for K-2 at Kettle River, 0.014 at Paredones Amarillos and 0.014 at Aquarius.

The prospective open pit mining waste-to-ore ratios are 0.94:1 at Round Mountain, 3.3:1 at McCoy/Cove, 4.42:1 at Paredones Amarillos and 6.5:1 at Aquarius.

The prospective gold recovery rates are estimated to be 66% at Round Mountain, 64% at McCoy/Cove, 93% at Lupin, 86% at Kettle River, 91% at Paredones Amarillos and 95% at Aquarius. Recovery rates are calculated on a weighted-average basis for all material processed by all methods at each property.

[2]To convert from tons to tonnes, multiply by 0.90718. To convert from tonnes to tons, divide by 0.90718.

[3]To convert grade from ounces/ton to grams/tonne, multiply by 34.2857. To convert grade from grams/tonne to ounces/ton, divide by 34.2857.

[4]To convert content from ounces to tonnes, divide by 32,150.8. To convert content from tonnes to ounces, multiply by 32,150.8.

[5]Assumes successful completion of permitting and financing for each property.

[6]Echo Bay wrote off its investments in Chapada and Kingking in 1997.

At Echo Bay, completion of an initial feasibility study is required for inclusion of mineralization in this category.

—*Measured:* That portion of "Other Mineralization" which has been explored at locations such as outcrops, trenches, workings and drill holes; quantity and grade and/or quality are estimated from the result of detailed sampling. The sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of the resource are well established.

—*Indicated:* That portion of "Other Mineralization" which has quantity and grade and/or quality estimated from information similar to that used for *Measured*, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for *Measured*, is high enough to assume geological continuity between points of observation.

—*Inferred:* That portion of "Other Mineralization" estimated from geological evidence and assumed continuity in which there is less confidence than for *Measured* and *Indicated*. The *Inferred* category is supported by fewer samples or measurements than for *Indicated*, and by reasonable geological, geochemical, geophysical or other geoscientific data.

Other Mineralization[1]

	1997							1996
	Measured and Indicated			Inferred			Total	Total
	Tons[2] (000)	Grade[3] (oz/ton)	Content[4] (000 oz)	Tons[2] (000)	Grade[3] (oz/ton)	Content[4] (000 oz)	Content[4] (000 oz)	Content[4] (000 oz)
Gold								
Producing Mines:								
Round Mountain (50%)	22,439	0.018	398	48,693	0.015	731	1,129	782
McCoy/Cove	—	—	—	635	0.025	16	16	42
Lupin	485	0.345	167	200	0.269	54	221	434
Kettle River	—	—	—	149	0.174	26	26	51
			565			827	1,392	1,309
Development Properties:[5]								
Aquarius	—	—	—	826	0.062	51	51	—
Paredones Amarillos (60%)	—	—	—	399	0.018	7	7	—
Ulu	—	—	—	1,509	0.374	565	565	610
Chapada (50%)[6]	—	—	—	—	—	—	—	660
Kingking (75%)[6]	—	—	—	—	—	—	—	2,850
			—			623	623	4,120
Total gold			565			1,450	2,015	5,429
Silver								
Producing Mines:								
McCoy/Cove	—	—	—	635	0.986	626	626	2,001
Total silver			—			626	626	2,001

Glossary

The technical terms in this glossary are described to give you a better understanding of Echo Bay's business. If there are other terms that you would like explained, please write to Investor Relations at the address provided on the inside back cover.

Adit
A tunnel driven horizontally into the side of a mountain or hill to gain access to mineralization for exploration or mining.

Dedicated Pad
See *Leach Pad.*

Dilution
The unwanted but unavoidable inclusion of some barren or low-grade rock along with the ore being mined. This lowers the grade of the mined material.

Doré
An unrefined bar of bullion containing an alloy of gold, silver and impurities. Echo Bay ships its doré bars to refiners for further processing, then sells them to precious metals dealers, mainly banks and their affiliates.

Drift
An underground horizontal passage providing access to a mineralized area.

Drilling

Blasthole Drilling
The drilling of holes in rock to insert an explosive charge. The drill holes are usually about 10-25 feet apart. The ensuing synchronized blast will break up the rock so it can be dug out.

Diamond (or Core) Drilling
Drilling with a hollow diamond-studded bit to cut out a solid rock core. A column of rock is extracted from inside the drill rod for geological examination and assay.

In-Fill Drilling
Drilling between widely spaced holes (typically up to 200 feet apart) to establish or upgrade the ore reserve classification.

Rotary Drilling
Drilling with a bit that breaks the rock into chips. The chips are continually flushed up the hole (outside the drill pipe) and are collected in sequence for geological examination and assay.

Reverse-Circulation Drilling
A type of *Rotary Drilling* that uses a double-walled drill pipe. Compressed air, water or other drilling medium is forced down the space between the two pipes to the drill bit, and the drilled chips are flushed back up to the surface through the center tube of the drill pipe.

Step-Out Drilling
Drilling at widely spaced intervals (typically in increments of 300 feet) outward from known deposits to test for extensions of mineralization.

Exploration
Exploration can be divided into three basic categories:

Grassroots Exploration
Exploration for ore in an area that has the correct geologic setting, although no ore may have been found yet in that precise location.

Headframe Exploration
Exploration for a separate ore body "within sight of the headframe" of an existing mine.

Definition Exploration
Exploration that defines an ore body, or searches for extensions to it, once it has been discovered.

Feasibility Studies
Determinations of the economic feasibility of mining a deposit, based on progressively greater levels of information.

Initial Feasibility (Level 1)
A preliminary estimate of what the economic parameters of mining a deposit are likely to be, based on a particular mining plan, process flow sheet, facility design, infrastructure, and estimated capital and operating costs. A Level 1 estimate usually describes an installation that *could be built.* The deposit is classified as Other Mineralization.

Detailed/Optimized Feasibility (Level 2)
A refinement and reassessment of the initial study, based on extensive additional information, detailed engineering, and optimization work. This provides a level of confidence such that a decision to build the project can be made. A Level 2 estimate generally describes the installation *intended to be built.* The deposit is now classified as Ore Reserves.

Definitive Feasibility (Level 3)
Yet a further increase in the level of engineering and other detailed work. The designs and estimates provided in the Level 3 estimate are for the installation that *will be built* with minimal modifications. Echo Bay would not normally proceed to this level of detail before making a construction decision unless it were to be required for stand-alone project financing.

Flotation
A process for concentrating minerals based on the selective adhesion of certain minerals to air bubbles in a mixture of water and ground-up ore. When the right chemicals are added to a frothy water bath of ore that has been ground to the consistency of talcum powder, the minerals will float to the surface. The metal-rich flotation concentrate is then skimmed off the surface.

Grade
The metal content of ore. With precious metals, grade is expressed

as troy ounces per ton of ore or grams per metric tonne of ore.

Cutoff Grade
The minimum grade of ore that can be mined and processed economically.

Gravity Separation
Recovery of gold from crushed rock or gravel using gold's high specific gravity to separate it from the lighter material.

Heap Leaching
A low-cost *Leaching* process in which ore is placed in a large heap on an impermeable pad. The solvent, a weak cyanide solution, is dripped or sprinkled over the heap and collected at the bottom after percolating through the ore and dissolving the metals.

Leaching
The extraction of a soluble metallic compound from ore by dissolving the metals in a solvent. See also *Heap Leaching.*

Leach Cycle
The average amount of time that ore is leached.

Leach Pad
A large, impermeable foundation or pad used as a base for ore during *Heap Leaching.* The pad prevents the leach solution from escaping out of the circuit.

Dedicated Pad
A leach pad that is constructed to permanently accommodate one ore heap. The pad forms the tailings pile when economic recovery has been reached and the pad neutralized.

Reusable Pad
A pad where ore is loaded and then unloaded at the end of each *Leach Cycle.* The pad, made of durable materials, can be reused continually.

Mill
A plant where ore is ground, usually to fine powder, and the metals are extracted by physical and/or chemical processes.

Mineralization
Mineral-bearing rock. In this report, mineralization generally refers to the presence of gold and silver established by widely spaced *Drilling.* It is referred to as "Other Mineralization" to distinguish it from "Proven and Probable Reserves." See *Ore Reserves* and also *Other Mineralization.*

Ore Body
A mineral deposit that can be mined at a profit under existing economic conditions.

Ore Reserves
For a full description of Echo Bay's Ore Reserves and Other Mineralization, see pages 44-45.

Other Mineralization
For a full description of Echo Bay's Ore Reserves and Other Mineralization, see pages 44-45.

Ounce
Throughout this report, the terms "ounce" and "milliounce" are used as abbreviations for the troy ounce measure of weight. The troy ounce has been used exclusively as a precious metals measurement, probably since the 16th century.
1 troy ounce
= 1.097 avoirdupois ounces
= 31.103 grams
1 milliounce = 0.001 ounce

Pad
See *Leach Pad.*

Ramp
An underground tunnel providing access for exploration or the movement of materials and equipment between mine levels.

Recovery Rate
The percentage of metals recovered in a mineral separation process. Recovery rates vary considerably depending on physical, metallurgical and economic circumstances.

Refining
A process of removing impurities from metals by introducing air and fluxes into the molten metal. The impurities are removed as gases or slag.

Reserves
See *Ore Reserves.*

Run-of-Mine Ore
Uncrushed ore in its natural state just as it is when blasted.

Shaft
A vertical accessway to a mine. Shafts are used for the movement of personnel and materials, including ore and non-mineralized rock.

Stope
An underground working area where ore is mined.

Stripping Ratio
In an open pit mine, large quantities of nonmineralized rock often cover up the ore and must be removed. The *Stripping Ratio* is the number of tons of non-mineralized material removed per ton of ore mined.

Tailings
The neutralized material discarded after the economically recoverable metals have been extracted from the ore by a *Mill* or by *Heap Leaching.*

Ton
The short ton is used throughout this report. It is a unit of weight equal to 2,000 pounds or 907.2 kilograms.

Directors and Officers

Directors

John N. Abell[1]
London, England
Corporate director

Latham C. Burns[1]
Toronto, Ontario
Corporate director

Pierre Choquette[2]
Vancouver, British Columbia
President and
Chief Executive Officer,
Methanex Corporation
(worldwide production and
marketing of methanol)

John Gilray Christy[2]
Wyndmoor, Pennsylvania
Chairman,
Chestnut Capital Corporation
(holding company)

Peter Clarke
Nanoose Bay, British Columbia
Consultant, metals and
mining industries

Robert L. Leclerc, Q.C.
Highlands Ranch, Colorado
Chairman and
Chief Executive Officer,
Echo Bay Mines Ltd.

Jack F. McOuat
Toronto, Ontario
Chairman,
Watts, Griffis and McOuat Limited
(consulting engineers and geologists)

Monica E. Sloan[1,2]
Calgary, Alberta
President,
Kelman Technologies Inc.
(seismic data processing, data storage
and retrieval services)

R. Geoffrey P. Styles[1,2]
Toronto, Ontario
Corporate director

[1]Audit Committee member
[2]Compensation Committee member

Officers

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Senior Vice President, Finance, and
Chief Financial Officer

Lois-Ann L. Brodrick
Vice President and
Corporate Secretary

Donald C. Ewigleben
Vice President,
Environmental and Public Affairs

Jerry McCrank
Vice President, Operations

Tom S. Q. Yip
Vice President, Controller and
Principal Accounting Officer

Mine Management

Rick A. Baker
General Manager, McCoy/Cove

Steve C. Mueller
General Manager, Round Mountain

Marv Walker, Sr.
General Manager, Kettle River

Shareholder Information

Stock Exchange Listings
The primary markets for Echo Bay's common shares are the American Stock Exchange and The Toronto Stock Exchange (symbol: ECO). The shares are also listed on exchanges in Montreal, Paris, Brussels, Zürich and Frankfurt.

Dividend Policy Change
Dividends of US$0.0375 per common share were paid in June and December 1996.

In January 1997, the company suspended payment of dividends on its common shares. The company believes that shareholder interests are better served at this time by conserving the company's cash resources and focusing on ways to build sustained future value rather than by making short-term cash payouts.

Annual General Meeting
The annual general meeting of shareholders is scheduled to be held at 9:30 a.m. on Thursday, June 11, 1998, in Toronto. All shareholders are invited to attend.

Form 10-K
A copy of Echo Bay's Annual Report to the U.S. Securities and Exchange Commission on Form 10-K is available on request. Please write to Investor Relations at the address below.

Common Share Market Prices

	American Stock Exchange		The Toronto Stock Exchange	
Quarter	High	Low	High	Low
1997 – 4th	US$ 5.88	US$ 2.00	C$ 8.10	C$ 2.85
– 3rd	5.94	4.75	8.15	6.55
– 2nd	6.88	5.31	9.40	7.35
– 1st	7.94	6.00	10.80	8.10
1996 – 4th	US$ 9.13	US$ 5.88	C$12.45	C$ 8.00
– 3rd	11.25	8.44	15.20	11.45
– 2nd	14.13	10.50	19.13	14.40
– 1st	14.75	10.50	20.25	14.38

Quarterly Results
Echo Bay discontinued publication of traditional Quarterly Reports when shareholder feedback indicated the reports were of limited value after the time lag of printing and mailing. Instead, we now post quarterly results on the Internet at our website (www.echobay.com) immediately on their release to the media, and we also maintain a mailing list of shareholders who wish to receive copies of Echo Bay's news releases by mail. Please write to Investor Relations at the address below.

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Transfer Agent
Montreal Trust Company of Canada is the company's principal transfer agent and registrar, and maintains all shareholder records for the company. Other transfer agents and registrars are The Bank of Nova Scotia Trust Company of New York and Royal Bank of Canada Europe Limited (London, England).

Shareholder Records
Shareholders may obtain information about their shares, lost certificates and other matters from:

Montreal Trust Company of Canada
Shareholder Services
151 Front Street West
Toronto, Ontario, Canada M5J 2N1
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800 663-9097 from Canada and USA
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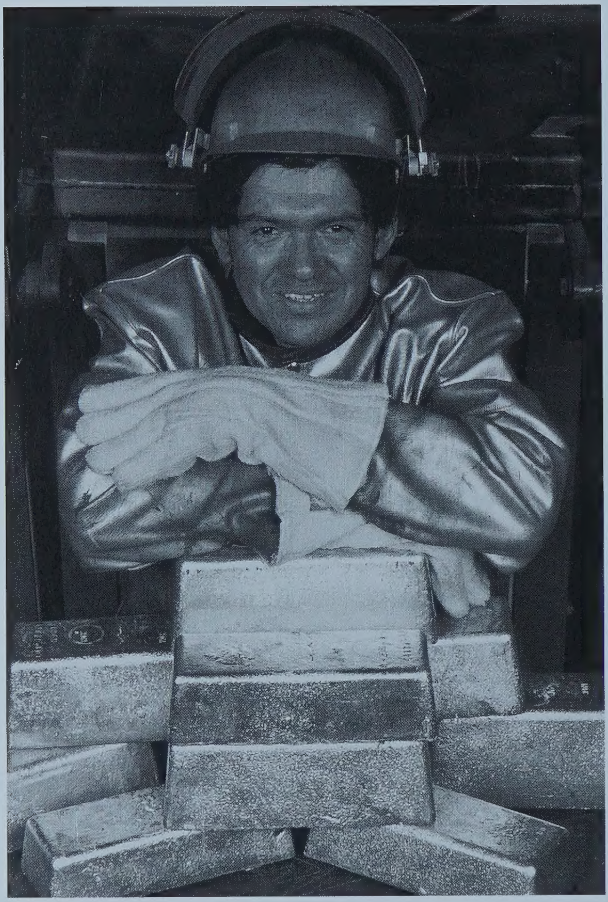

Kiko Herrera, Round Mountain Gold Mine, Nevada

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